

**THE CHAIN STORE
TELLS ITS STORY**



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THE CHAIN STORE TELLS ITS STORY

By

JOHN P. NICHOLS

Managing Director, Institute of Distribution, Inc.

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ACKNOWLEDGMENT

THIS book is the 1940 descendant of the 1932 edition of *Chain Store Manual* authored by the writer for the National Chain Store Association, and of the 1936 edition of the same Manual prepared for Institute of Distribution, Inc.

In this effort to provide a comprehensive yet congenial vehicle presenting the social and economic values of chain stores, the author has gratefully received cooperation from many reliable sources and from many executives in the chain store field.

Special mention, in this connection, is due Dr. C. F. Hansen, Director of Standards, W. T. Grant Co.; W. E. Harper, Secretary-Treasurer, McCrory Stores Corporation and E. J. Condon, Director of Public Relations, Sears, Roebuck & Co.

Hearty thanks are likewise expressed to Dr. Paul H. Nystrom for the rich knowledge of the chain store that he unstintingly made available, and to E. W. Simms of White & Simms, New York, and General Counsel of Institute of Distribution, Inc., for constructive guidance and counsel.

It is fitting, moreover, to pay tribute here to the staff of the Institute, especially to Dr. Paul C. Olsen, Robert E. Bauer, W. A. McCall and Jack B. Peix, for invaluable aid, statistics and data furnished and used in the preparation of this book.

From this aid has come this document which, it is hoped, provides its readers with a satisfying opportunity to examine the circumstances which stimulated chain store growth through the years, to consider the prejudices that chain store progress has created, to measure the true value of the great chain store development and to distill from all this experience, a more valid understanding and interpretation of the modern American chain store.

JOHN P. NICHOLS

New York City
January 2, 1940

FOREWORD

Retailing in the United States is carried on in more than 1,600,000 stores as well as by mail order and house-to-house selling. These stores vary in size from tiny holes-in-the-wall to great department stores covering entire city blocks. They vary from many small places operated by an owner or manager without employees, to institutions employing thousands of men and women.

This enormous business is carried on in a wide variety of types and kinds of institutions. Retail stores are owned by individuals, partnerships and corporations. Many of these ownerships cover two or more stores. Multiple store groups under the same ownership and management are called chain store systems.

This book is at once a comprehensive manual of chain store facts, detailed explanation of their activities, an inspiring statement of their accomplishments and a well-reasoned argument for their place in the business of distribution of goods from producers to consumers.

CHAIN STORE PROGRESS

Chain stores, like department stores and mail order houses, and, for that matter, like machine production, automotive transportation and television, are relatively new in our business system. Many of the founders of the larger chains in this country are still the operating heads of their concerns. In the brief span of a single generation, most chain store systems have come into existence and have expanded in number and extent so that they now supply American consumers with slightly more than a fifth of all their retail merchandise requirements.

Naturally, a growth of such speed and extent in the midst of established businesses has aroused fear among its competitors and misunderstanding or misinterpretation among many others. As a consequence, chains have been accused of about every crime in the business world calendar. It may not be possible to allay the prejudices of those who would have liked to get the business that the chains have developed, but this book should do much to clarify the real functions and the social services of chains to an otherwise disinterested public.

CONSUMER-MADE GROWTH

 According to the record, the growth of the chain stores in this country has been due entirely to the active preferences of the consuming public who have willingly patronized chain store units in increasing numbers and for an increasing volume of goods. This consumer preference has been earned by lower prices, better stocks of goods, improvements in cleanliness, lighting and store arrangements, and by interesting methods of advertising and display. Other types of stores have been prompted to adopt these improvements, but the leadership of the chains and the prestige accompanying such leadership has helped them to continued progress and growth.

A STORY WORTH KNOWING

It is one of the anomalies of business that an institution such as the chain stores which has made such decided contributions to the improvement of distribution should have been subjected, during the past fourteen years, to an intensive effort by means of unfriendly legislation to handicap or even to destroy it. The story of the struggle of the chains to maintain their rights to serve the public is dramatically and sympathetically presented in this book. This story needs to be told and retold not only for the benefit of the consuming public but also for the benefit of all society confronted by the introduction of improvements and changes that are likely to upset traditional institutions and methods of operation.

This book deserves a wide reading not only by business people but also by publicists, politicians and students of current American problems. It should go far towards ending the controversies and clearing up the misunderstandings that still clutter up the channels of trade concerning the place, the functions and the effects of chain stores in our present system of distribution of goods.

PAUL H. NYSTROM
Professor of Marketing
Columbia University

CHAPTER ONE

CHAIN STORES: PAST AND PRESENT

There should be no difficulty involved in understanding what a chain store actually is. Broadly speaking, it is simply a method of distribution involving the use of more than one retail outlet by a mercantile company or by an individual — by a corporation or by a partnership — in order to bring the same general kind of goods, wares or merchandise effectively, economically to consumers.

We meet our first problem in our search for understanding only when we seek a commonly accepted, standard definition of the chain store. Here we find conflicting viewpoints among authorities.

The United States Census of Distribution, for instance, does not classify a retail organization as a chain store unless it has more than three units. On the other hand, the Federal Trade Commission, in its investigation of the chain store industry, defined a chain store as an organization controlling and operating two or more units.

The preferable definition — the one which is evidently most satisfactory to all points of view — interprets chain stores as being two or more retail establishments operating under common management, ownership or ultimate capital control, engaged in the sale of the same general kind of goods, wares and merchandise.

"CHAIN" TECHNIQUE VENERABLE

The principle of multi-unit operation is by no means an infant in our economic life, despite the fact that it achieved its greatest growth and progress in this country only after the origin and development of the Industrial Revolution in America. In truth, it is a venerable institution.

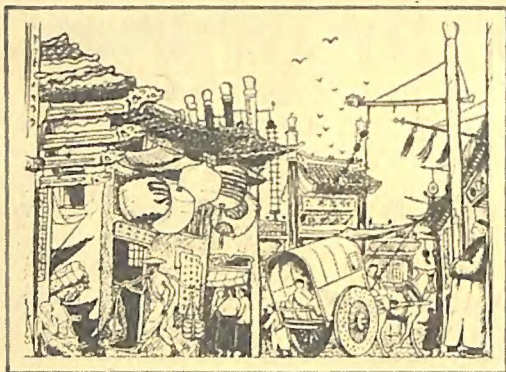
Our stone-age forefather, for instance, employed the chain store principle by looking for a second cave when the saber-tooth tiger was in the neighborhood. He thus became a sort of "chain-cave" operator.

The young farmer who worked hard, saved his money and bought some more land a few miles down the road became, in fact, a chain farm magnate. The country we live in was originally a chain of thirteen states which grew to forty-eight on the basis of strength in unity.

Accordingly, the chain doctrine of management permeates almost every phase of modern living. It is applied for only one reason—because in the performance of certain vital functions, it makes possible superior service, greater economy, more thorough efficiency and a greater good for the greatest number.

There is, for example, the United States mail system. If every one of our fifty-four thousand post offices were operated independently, how long

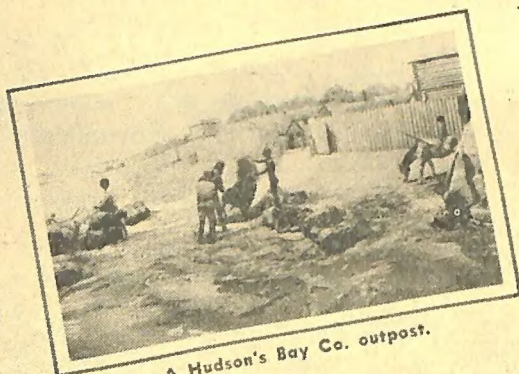
Forerunners of Multi-Unit Retailing



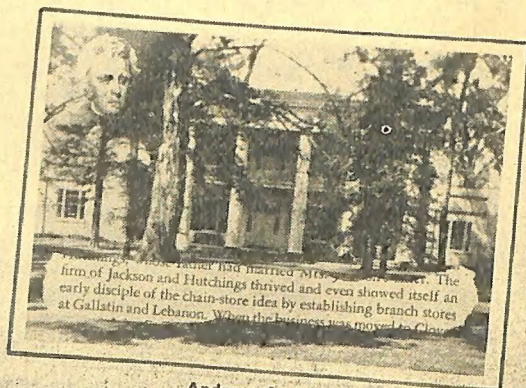
Multi-unit retailing in ancient China.



Fugger family of Augsburg, Germany.



A Hudson's Bay Co. outpost.



Andrew Jackson.

would it take and how much would it cost to send a letter from, say, Painted Post, New York to Sunset, Arizona? The ease and certainty with which we talk to our homes on the phone, from across the country if need be — the ease and certainty with which we summon the doctor, the police, or the fire department—are all made possible to us only through the efficiency of a world-wide communications chain.

The inspiration and entertainment which daily pour through the twenty-six and a half million radio sets in this country are broadcast by great chains of radio stations. The news that we read is assembled from all corners of the known world and is written, edited and brought to us by mighty news-gathering chains such, for example, as the Associated Press, the United Press and the International News Service whose correspondents encircle the earth.

CHAINS ANTEDATE CHRISTIAN ERA

While the long existence of the chain technique in many fields outside of retail distribution is, clearly, no bombshell of news, it seems less well known that the chain store system in *retail distribution* antedates the Christian era.

On Lo Kass, a Chinese merchant, for example, established a distributive system involving the use of a large number of stores throughout the Celestial Empire, 200 years before Christ.

The Mitsui group, another system which is, to all intents and purposes, a chain store company, had its origin in Japan. This system originated in 1643 as a chain of apothecary shops and to this day is still a powerful organization in the drug business.

The Fugger family of Augsburg, Germany; the Merchant Adventurers who operated in England under a Royal Charter, and the various other giant organizations of that period were simply chain store systems, buying and selling under central management and control and operating two or more units in a manner not unlike that of the Great Atlantic and Pacific Tea Co., the Liggett Drug Co., the F. W. Woolworth Co., the Melville Shoe Corporation, and other of our modern chain store systems.

In this country, the history of the multi-unit system of retail distribution dates back even before the Revolutionary War. The Hudson's Bay Co. is the oldest chain in America.

In the year 1670, a small band of British gentlemen received from the Crown the chartered title of "Company of Gentlemen Adventurers of England Trading in Hudson's Bay." Their scattered outposts, struggling for existence against hostile tribes and winter hardships during our Colonial period, comprised the first chain trading unit in America.

This company still operates stores in the leading cities of Western and Northern Canada where it likewise conducts a widespread trading and financing business.

Andrew Jackson at one time owned a small chain of retail stores in Tennessee. And strangely, certain wholesale houses which today are among the most implacable foes of the modern chain store were themselves early chain stores.¹

PART I

Ramifications of the Chain Store Industry

Nearly all chain stores were created by independent retailers who started with one store.²

As one reviews the long line of chain store origins, a parade of success stories is viewed whose scale and flare would do justice to Horatio Alger. These stories are rooted in the American tradition of opportunity for all and demonstrate the stiff battles of modest one-store owners to build great institutions on the strength of genuine community service. They contradict the grandiose fable that chain stores were hatched like some foul and fabulous monster in the gilded recesses of a Wall Street mausoleum.

Moreover, many of our largest chain store companies of today started with one store 75 years ago; others 50 years ago; others 25 years; others as late as only 10 and 5 years ago, the latter demonstrating that opportunity, still the tradition of the land, continues to flourish in American retailing. These companies are as much a part of the same, orderly evolution of American retail distribution as the machine and the assembly line are a part of the great development of mass production in America.

"It isn't sufficient to produce a better mousetrap in order to bring the world to your door, in our high-speed world," an eminent marketing authority has said. "Just making a better product isn't enough. Bringing that product to the consumer quickly, cheaply and efficiently is equally important."

The chain store then is the team mate of mass production and the combination has contributed immeasurably to the creation of the American standard of living.

*Note*¹ One wholesale grocery company, for example, now operates 26 wholesale stores in 3 states. A well-known company in the wholesale drug business operates wholesale drug and liquor stores from Boston to Honolulu. These are but two typical cases in point among many.

² A survey of 138 representative chain store companies, of all types, in all fields, operating about 33,000 stores, coast-to-coast, with 1937 sales of about 3½ billion dollars, that was jointly conducted by the five national associations serving chain stores and which was certified on January 9, 1939 by the public accountants, Peat, Marwick, Mitchell & Company, showed that, of the 119 companies that replied on the survey's birthdate and birthplace question, *all* had single store beginnings. 17% of these originated more than 40 years ago; 47% have existed over 25 years and 90% over 10 years. Their birthplaces are in 31 different states and in 94 widely-scattered communities, ranging in size from crossroads hamlets to metropolitan centers.

THREE CHAIN STORE TYPES

Today, the American chain store industry is made up of national, sectional and local companies operating in 86 different fields, including food, shoe, general merchandise, drug, etc. Companies are classified as national, sectional or local depending on the extent and location of their trading operations.

Many of the older companies that existed in the period of the great development of our American Far West followed the trek westward and dotted the nation with units that survived and prospered because their customers liked their well-selected and fresh stocks of merchandise, their services, their conveniences and their lower prices. Step-by-step, West-born companies progressed Eastward; Northern concerns moved Southward, and vice versa, thereby building our *national* chain store institutions, whose stores in present-day America serve millions of satisfied consumers in all corners of the United States.

Others, either through choice or circumstance, have developed only in limited areas of our nation and have become our so-called *sectional* chains; others, including independent merchants who are now cutting eye teeth in the chain store field, operate groups of stores in but one community and are, therefore, our *local* chain store companies.

NATIONAL CHAIN STORE COMPANIES

The first of these three classes is termed *national* because the companies included within its roster operate from coast-to-coast. Outstanding among these *national* companies are such corporations as the F. W. Woolworth Co.; the Great Atlantic and Pacific Tea Co.; the J. C. Penney Co.; Montgomery Ward and Co.; Sears, Roebuck and Co.; Lerner Stores Corporation (apparel stores) and the retail stores of the Goodyear, Firestone and Goodrich tire and rubber companies. Each of the foregoing companies operates retail establishments in 40 or more states of the Union—from the Atlantic Ocean to the Pacific and from the Great Lakes to the Gulf of Mexico.

Among other well-known companies that operate from coast-to-coast and which are accordingly eligible for *national* classification are: J. J. Newberry Co. (variety); Melville Shoe Corporation³ (shoe); W. T. Grant Co. (variety); Liggett Drug Company, Inc. (drug); Walgreen Drug Stores (drug); United Cigar-Whelan Stores Corp. (cigar); H. L. Green

*Note*³ Though the Melville Shoe Corporation operates 700 stores, its empire extends westward only as far as Arizona. Yet, it seems technically proper to consider it as a *national* chain store organization. Thom McAn, John Ward and Frank Tod shoe stores are operated under the Melville banner.

Co., Inc.⁴ (variety) ; S. H. Kress and Co. (variety) ; Cannon Shoe Company (shoe) ; Jewel Tea Company (grocery) ; National Shirt Shops of Delaware, Inc. (apparel) ; Safeway Stores, Inc. (grocery) ; B/G Foods (restaurants) ; Bickford's, Inc. (restaurants).

SECTIONAL CHAIN STORE COMPANIES

Sectional chain store companies are those which operate stores in a number of communities, in limited sections of the country, such, for example, as in the New England states, on the Pacific Coast, in the Gulf Southwest, or in any one or several of our geographic divisions, but not coast-to-coast.

A typical example of this sectional type of chain store is the Kroger Grocery and Baking Co. which, though operating approximately 4,000 stores in 19 states, is not, nevertheless, considered a national institution in the strictest sense, since its trading activities are confined primarily to the Middle Western states. By the same token, the First National Stores, Inc. (grocery) which confines its retailing activities almost entirely to the six New England states, must naturally be classed as a *sectional* chain store company.

Similarly, the S. S. Kresge Co., one of the oldest and best-known variety store companies in America operates its seven hundred-odd "green" front and "red" front chain variety stores in 27 states. Its furthest western operations, however, are in the Dakotas and in Nebraska.

Among the many other well-known chain store companies whose stores serve consumers in certain limited sections of the United States and which are, for this reason, classified as *sectional* chain store corporations are the following: Western Auto Supply Co. (auto accessory) ; The Schiff Company (shoe) ; McCrory Stores Corporation (variety) ; The Scott-Burr Stores Corp. (variety) ; William Beatus, Inc. (apparel) ; Virginia Dare Stores, Inc. (apparel) ; The Askin Stores, Inc. (apparel) ; Dejay Stores, Inc. (apparel) ; McLellan Stores Company (variety) ; Gamble-Skogmo, Inc. (auto accessory) ; Adam Hat Stores, Inc. (apparel) ; Jules Chain Stores Corp. (apparel) ; The Miller-Wohl Co., Inc. (apparel) ; Neisner Bros., Inc. (variety) ; Fanny Farmer Candy Shops, Inc. (candy) ; Day Stores, Inc. (apparel) ; The Miller-Jones Co. (shoe) ; G. C. Murphy Co. (variety) ; Puritan-Federal Clothing Stores Co. (apparel) ; M. H. Fishman Co., Inc. (variety) ; Peoples Drug Stores, Inc. (drug) ; American Stores Company (grocery) ; G. R. Kinney Co. (shoes) ; H. H. Butler Stores, Inc. (apparel) ; Red Owl Stores, Inc. (grocery) ; Grand Union Company, Inc. (grocery) and the National Tea Company (grocery).

*Note*⁴ This company operates stores under the names of H. L. Green Co., Inc.; Metropolitan 5 to 50c Stores; F. & W. Grand 5-10-25c Stores; F. & W. Grand-Silver Stores; Isaac Silver & Bros. and Silver's. The company also owns the Retail Department Stores of America, Inc. which conducts the Schulte-United Variety Stores.

Others include Charles Stores Co., Inc. (variety); Rose's 5-10-25c Stores, Inc. (variety); Cunningham Drug Stores, Inc. (drug); Handelman's Chain Stores (gen. mdse.); Mary Lee Candies, Inc. (candy); Nedick's Stores, Inc. (restaurant); Whipple Bros., Inc. (lumber); Berger Hosiery Stores, Inc. (apparel); Sumner Stores Corp. (apparel); Morris 5 and 10c to \$1 Stores, Inc. (variety); Sprouse-Reitz Co., Inc. (variety); Interstate Co. (restaurants); John R. Thompson Co. (restaurants); David Pender Grocery Co. (grocery); Southern Grocery Stores, Inc. (grocery); A. L. Duckwall Stores Co. (variety); Graham Department Stores Co. (variety); Eagle 5-10-25c Stores (variety); Hested Stores Co. (variety); Kuhn Bros. Co. (variety); Raylass Chain Stores, Inc. (variety); W. W. Mac Co. (variety); Morgan and Lindsey (variety); Schultz Bros. Co. (variety); and Sterling Stores Co. (variety).

LOCAL CHAIN STORE COMPANIES

Chain store companies are classified as local if substantially all of their stores are located in but one community. By far the largest number of chain store companies are local concerns. Among the better known ones are such grocery corporations as the Thomas Roulston Co., H. C. Bohack Co., Inc., and Daniel Reeves, Inc., all of New York City; the Standard Grocery Co. of Indianapolis, Ind.; the National Grocery Co. which operates in New Jersey; Fischer Bros. Co. of Cleveland; Autenreith's Variety Stores of Pennsylvania; Mattingly Brothers Stores Co. (variety) of Missouri; M. H. Lamston, Inc., variety stores of New York; the variety stores of G. M. Najarian and Sons of Rhode Island, and scores of others.

Such chain store companies as See's Candy Shops, as the Albert Sheetz Mission Company; as De Mets restaurants; as Elkin's Variety Stores of Texas fame; as Fisher Grocery Company in Springfield, Illinois; as the well-known local drug companies of Hook, Kinsel, Read Drug, Standard, Schettler, Sontag and Weinberger, and other corporations of a similar character are all considered local since their respective retail operations are restricted to but one trade area or to but one state.

THE MULTI-UNIT INDEPENDENT

It should be noted, at this point, that one classification of a retailer involves us in a very narrow and subtle distinction. Reference to the "multi-unit independent" must, necessarily, be made here if we are fully to characterize the modern chain store of America.

It is often difficult to differentiate between the so-called "multi-unit independent" and the "chain store." The distinguishing characteristic is that though the proprietor of the multi-unit enterprise operates the same general kind of business in two or more separate locations instead of but one, he does so in the manner of a single-store independent and not in

the manner of a chain, the latter implying, as previously shown, some type of central merchandising facilities, as, for example, a warehouse and/or a central buying office.

The multi-unit independent operates each store separately, or he may purchase merchandise for his principal store and interchange this merchandise between that principal store and his other store or stores.

As he increases the number of his units, however, he finds it increasingly difficult to operate them successfully as independent stores, or to requisition merchandise effectively for his other store or stores from the stocks of his parent store. Accordingly, he adopts central merchandising and becomes, in fact, a local chain.

The operator is aware of the change. The change, however, is not always apparent to the public. It was for this reason that the Bureau of the Census, unlike the Federal Trade Commission, adopted the arbitrary measure of constituting a chain store company as being one operating a minimum of 4 stores.

Most of our national, sectional and local chain store companies originated, as we have seen, as single stores. They climbed by achievement and service to multi-unit independent classification and then ultimately progressed to chain store rank.

PART II

Post-World War Chain Progress

Since the World War, that is since 1919, the chain store industry has expanded with a rapidity that made even its previous expansion seem relatively slow. The post-World War boom was a tonic to the chain; everywhere new chains were established and old chains enlarged.

Authoritative figures revealing for comparison the size and sales volume of the chain store industry in the year or so immediately following the ending of the World War are not available. Reliable estimates, however, establish the volume of chain store business in America, in 1920, at approximately 4% of the total retail trade of the country.

Within three years, that is, by 1923, chain store business mounted to 6% of America's total retail business; by 1926 to 8%; by 1927 to 12%, and by the end of 1929 to 20% of our nation's retail trade.

During the same decade, the population of the United States increased from 105,710,620 inhabitants to 122,775,046 in 1930. With more mouths to feed, more bodies to clothe, more feet to be shod, more sick to be medicined, is it any wonder, therefore, that chain stores, busy, modern establishments featuring streamlined retail distribution, experienced substantial growth and progress?

By 1933, according to the United States Census of American Business for that year, the chain store's share of the nation's total retail trade had

increased to 25.4%. In other words, in the span of 13 years, from 1920 through 1933, the chain store industry increased its share of the retail trade of the United States by more than six times. The reports of the Census of Business taken by the United States Department of Commerce show, however, that by 1935 the chain store's share of America's total retail trade had dropped to 22.8%.

CHAIN STORE GROWTH EXPLAINED

Left unqualified, these figures indicating the tremendous post-World War growth of the chain store industry might seem that, up to 1933 at least, chain stores were rapidly achieving a monopolistic goal. The facts when marshalled, however, dispel this possibility. Here they are:

The most reliable data concerning the numerical extent and comparative sales performance of chain and individually-owned stores in America are obtainable from the Department of Commerce of the United States, which has conducted several extensive investigations in this connection.

The first, known as the Census of Distribution, was completed in 1931 and gave the nation its first clear picture of the American distributive system as that system was in 1929. The second survey, made under the name of Census of American Business, analyzed American distribution for the year 1933. The third and latest available survey—known as the United States Census of Business—covered the year 1935. The following data are from these authoritative governmental sources.

In the boom year, 1929, there were, according to these Department of Commerce data, 1,375,509 independently-owned stores in the United States which secured fully 77.5% of America's retail trade then aggregating \$49,114,653,000.

In 1933, there were 1,349,337 independently-owned establishments—or only 2% less than in 1929. In 1933, these 1,349,337 independently-owned stores secured 71% of the total retail business in the United States which by this year had declined 49% to the depression low of \$25,037,225,000.

In the boom year, 1929, on the other hand, there were 159,638 chain stores in the United States which secured about 20% of America's 1929 retail trade.

In 1933, there were 152,308 chain stores operating in the United States. These stores did 25% of the retail business of the United States leaving fully 71% of the business to individually-owned stores and 4% to retail establishments selling from house-to-house, by catalogs, and by various other methods.

By 1935, the latest year on which governmental data are available, the number of individually-owned stores increased in the United States from 1,375,509 in 1929—and 1,349,337 in 1933—to 1,474,149.

These 1,474,149 independently-owned establishments secured 73% of the retail business in the United States which in 1935 had made considerable recovery and in that year totalled \$33,161,276,000.

Meantime, 139,810 chain stores did 23% of the retail business of the United States, leaving fully 4%, or the balance of the United States retail business, to retail establishments selling house-to-house, by catalogs, and by various other methods.

INDEPENDENT STORES BECOME CHAINS

In expanding their business from 4% of the total retail trade in the country in 1919 to 20% of the aggregate retail business in America in 1929, chain stores were fulfilling an insistent need for a streamlined system of distribution to bring the fruits of perfected mass production, economically and efficiently to America's masses. Though they gained great resultant size and stature, they were not alone, however, in achieving this. Individually-owned stores were as much in the swim of a business cycle that was approaching the peak of American prosperity as anyone. That peak was finally reached in 1929.

Moreover, the records are crowded with evidence of progressive single store operators who, caught in the onward pull of expanding American progress and prosperity during this period, became second store owners, then third, then fourth unit operators, ultimately growing into the chain store companies which are today so substantially bringing values, services and conveniences to America's rank and file.

Competent authorities hold, and authoritative data substantiate, that the chain store reached the peak of its growth in America in 1929. That the chain store share of the total retail trade of this country mounted during the ensuing depression period, from 20% in 1929 to 25.4% in 1933 is explained by the United States Bureau of the Census, as follows:⁵

"The higher chain ratio in 1933 for retail trade as a whole does not mean that the chains in all kinds of business have weathered the four years of depression better than independents. Much of the cause of the smaller aggregate decline in chain sales than in independent sales is the relatively smaller decline in the sales of those kinds of business in which the chains prefer to operate—food, variety and drug stores, and filling stations. In these four fields, which account for more than one-half of total chain store sales, the decline in sales between 1929 and 1933 (for chains and independents combined) average 34 percent, compared with 56 percent in all the other business fields together. In most of those kinds of business which experienced the greatest decline in sales volume, chains are a negligible factor."

*Note*⁵ *Reference Source*: Census of American Business, Retail Vol. 1, pp. 25 and 26. (1933).

CHAIN STORES: PAST AND PRESENT

Although chain store sales increased from \$6,767,766,000 to \$8,460,611,000 between 1933 and 1935, the chain store share of America's total retail trade had meantime decreased, we have seen, from 25.4% in 1933 to 22.8% in 1935.

This chain store decline in the face of increased aggregate chain store sales resulted not only because of the substantial sales upturn that had occurred from 1933 to 1935 in retail lines in which chain stores did not have many stores, but also from the fact that chain store sales increases in food, variety store and filling stations were less between 1933 and 1935 than the sales advances made by individually-owned food, variety store and filling stations during this same period.

The following tabulation demonstrates this point:⁶

	% Sales Increase 1933 to 1935	
	Chain	Independent
Food Stores	11.2%	30.6%
Variety Stores	14.2%	26.0%
Drug Stores	22.9%	15.0%
Filling Stations	23.0%	57.2%
All Stores	18.5%	35.9%

As a final bit of supporting evidence, the record of the depression should be noted. As consumer income fell and the necessity for economical purchasing became imperative, more consumers turned to chain stores for their needs. Accordingly, the percentage of total sales made by chains mounted from 20.0 percent in 1929 to 25.4 percent in 1933. As consumer income rose, the chain store sales ratio fell to 22.8 percent in 1935.

There is, of course, no gainsaying America's need for the chain store which usually concentrates on selling standard, well-advertised necessities of life, primarily on the cash-and-carry basis, at the lowest retail prices possible, principally to the average-income citizens of the land, particularly to those living in our most densely-populated trading areas. By the same token, however, the foregoing governmental data demonstrate that while chain stores represent a major, vital factor in American retail distribution, they are neither monopolizing the nation's retail trade, nor even approaching such monopoly.

⁶ *Reference Source:* U. S. Census of Business, Retail Vol. 6, Table 4G and Retail Vol. 4, Table 1. (1935); Census of American Business, Retail Vol. 1, pp. 30-33, and Chains and Independents, Table 3. (1933).

PART III

The Chain Store Industry Defined

The chain store business is generally considered an "industry." Noah Webster defines an "industry" as "... *any department or branch of art, occupation, or business, especially one that employs much labor and capital, such, for instance, as the sugar industry.*"

The chain store business fits perfectly into that definition, yet it is not actually an "industry" in the fullest sense of the word, for it is composed of a number of different types of business. The Kroger Grocery and Baking Co., for example, is a chain store company because it operates many stores under central ownership, management or ultimate control and, as such, is a part of the chain store business. On the other hand, by its very character, the Kroger Company is essentially a grocery company and a principal member of the American grocery industry.

The same must be said for the Walgreen Company, which is an important member of the drug industry—and for the Regal Shoe Company, which is included in the American shoe industry—and so on down the long line of chain store institutions.

Hence, the basic relationship that exists between the Kroger grocery chain and the Walgreen drug chain and the Regal shoe chain is the fact that these companies likewise operate two or more stores under central ownership, management or ultimate capital control.

FOOD CHAINS BEST KNOWN

It is interesting to note that the Census Bureau, in its investigation of American distribution in 1933, listed 86 different kinds of chain stores. Six major fields, however, have had the most noteworthy development and, accordingly, are considered, generally, as the very backbone of the chain store business in America. These six include the general merchandise; the food; the apparel; the shoe; the drug; and the restaurant groups.

Regardless of the fact that there are 86 different types of chain stores and that there are at least six major kinds that have made standout progress in America, the fact nevertheless remains that when the word "chain store" is mentioned to rank and file, the picture that subconsciously flashes to mind is that of a "red front" or of a "green front" or of a "yellow front" food and grocery store.

This was well demonstrated in a survey made by Opinion Research, Inc. which recently questioned consumers, coast-to-coast, on various chain store subjects. In reply to the question "When chain stores are mentioned, which store comes to your mind first?", 80% gave the name of a grocery chain. The reason evidently lies in a combination of facts.

Most consumers, for example, patronize chain food and grocery stores oftener than they visit other types of chains including the popular "five

and ten." The number of chain food and grocery units, furthermore, is greater than the number of chain stores in any other chain store field. The agitation that has seemingly been directed most vigorously against chain grocery store companies, too, may have served to make the public more conscious of the grocery chains.

In any case, in the public mind, a "*chain store*" generally represents a chain food store, such, for example, as the A. & P., as Kroger, as Safeway, as the American Stores, as National Tea, as First National Stores—or as a unit of any other prominent chain food company.

Despite the fact, first, that it is by far the best known of all chain groups and second, that it represents over 40% of the total number of units composing the chain store industry in the United States, however, the chain grocery group, strangely enough, is not the leading chain store field insofar as obtaining the greatest amount of the American retail sales in its own field is concerned. The following table, prepared from governmental data, is self-explanatory in this connection:

TABLE
PER CENT OF VARIOUS STORE SALES AND
STORES IN VARIOUS RETAIL TRADES⁷

Type	Chain Store % Of Total U. S. Retail Trade	Chain Store % Of Total Number U. S. Stores
Drugs	25.7%	6.6%
Shoes	50.0%	26.4%
Apparel	27.3%	12.6%
General Merchandise*	45.0%	22.7%
Restaurants	14.5%	2.6%
Food	34.8%	10.5%
All Retail Trade	22.8%	8.5%

*Includes 124 variety store chains, 160 general merchandise chains and 44 department store chains.

PART IV

Analyzing the Independent Food Merchants

So much public misapprehension exists today in the matter of the actual effect of chain store growth and development on the life and progress of individually-owned grocery retailing in America, that a digression here for exploration into the facts is important if we are to see our subject whole and understand it fully.

*Note*⁷ *Reference Source:* U. S. Census of Business; Retail Vol. 1, IV. Table 3B and Retail Chains, Table 6 (1935).

IS THE LOCAL MERCHANT DOOMED?

Conclusions From Surveys That Were Conducted Probing This Question

SURVEY YEAR	SURVEYED COMMUNITY (IES)	TYPE OF INDEPENDENT STORES SURVEYED	SURVEY CONDUCTOR
1929	Buffalo, N. Y.	Drug stores	Dr. E. D. McGarry
1929	Buffalo, N. Y.	Grocery stores	Dr. E. D. McGarry
1929	Buffalo, N. Y.	Hardware stores	Dr. E. D. McGarry
1929	Buffalo, N. Y.	Shoe stores	Dr. E. D. McGarry
1932	Fort Wayne, Ind.	Grocery stores	Russell L. Furst
1931	Fresno, Calif.	Grocery stores	Dr. Paul C. Olsen
1934	Grand Rapids, Mich.	Grocery stores	Dr. Paul C. Olsen
1929	Kansas City, Mo.	Restaurants	Dr. W. C. Plummer
1936-7	Knoxville, Tenn.	Indep. and Chain Grocery stores	J. N. Rebori
1926	Lincoln, Neb.	Grocery stores	H. G. Avery
1931	Louisville, Ky.	Drug stores	Dr. Paul C. Olsen
1930	Louisville, Ky.	Grocery stores	Dr. Paul C. Olsen
1931	Mobile, Ala.	Grocery stores	Dr. Paul C. Olsen
1931	New London, Conn.	Grocery stores	Dr. Paul C. Olsen
1935	Pittsburgh, Pa.	Drug, Groc., Shoe & Hardware stores	Dr. A. E. Boer
1936-7	Poughkeepsie, N. Y.	8 types	Drs. Ruth G. Hutchinson, Arthur R. Hutchinson and Mabel Newcomer
1934	Sacramento, Calif.	Grocery stores	Dr. Paul C. Olsen
1931	Schenectady, N. Y.	Drug stores	Dr. Paul C. Olsen
1931	Schenectady, N. Y.	Grocery stores	Dr. Paul C. Olsen
1936	Texarkana, Texas and Ark.	Grocery stores	Dr. Paul C. Olsen
1916	Waterloo, Ia.	All types	S. A. Dennis
1931	Wichita, Kan.	Grocery stores	Dr. Paul C. Olsen
1936	Colorado (142 municipalities; not Denver)	10 types	University of Denver
1932	Illinois (255 municipalities)	11 types	Dr. P. D. Converse
1932	Minneapolis, St. Paul, Duluth, Minn.	Indep. and Chain Grocery stores	Dr. R. S. Vaile
1900	Wisconsin (7 municipalities)	7 types	Dr. P. H. Nystrom
1932-3	30 Towns in 28 states	25 types	Federal Trade Commission
1934	Entire United States	All types	U. S. Bureau of the Census

GENERAL CONCLUSIONS

1. In proportion to population, authoritative, independent surveys made in 453 different cities demonstrated that, as of survey date, there were just as many independently-owned stores in America as there were 10 to 50 years ago.
2. These studies of the mortality of individually-owned stores, made in all sections of the country and in communities ranging in population from crossroad hamlets to metropolitan centers and extending from before 1890 down to 1936, showed that, in this long period of years, there
3. always had been a substantial mortality of individually-owned stores and, that as fast as these stores had gone out of business, they were replaced, in virtually equal numbers, by new independently-owned stores.
3. That in all of these 453 widely-scattered localities, for the periods and for the types of stores surveyed, there was no evidence that the local merchant is doomed by the growth and development of large scale retailing.

Is the chain store a menace to the individual food and grocery retailer? Can the individually-owned food and grocery store compete successfully with the chain store? Is chain store competition essentially responsible for the mortality of individual food and grocery enterprise?

These manifestly are questions that only a microscopic diagnosis of the American field of individual grocery enterprise can answer most reliably.

NO STRUCTURAL WEAKNESS HERE

The Bureau of the Census, in conducting its Census of Business for 1935, found that 73,875 independent grocery retailers enjoyed a sales volume, in 1935, totalling \$3,182,016,000. Significantly, these 73,875 leading food retailers, or about 15% of the total number of independent grocery retailers in America, alone, obtained over 58% of the total grocery business that was done by individually-owned grocery stores in 1935. For purposes of identification, we shall hereafter refer to these 73,875 grocery merchants as our *first* group.

Numbered within this *first* class of grocery merchants are the most progressive individual retailers in the grocery field of the nation. Also included within this group of "*top-grade*" retail establishments are many of the so-called "super-markets" which are owned by large independents or by groups of a few individual food and grocery merchants.⁸

The alert, competent merchants in this "*top-flight*" group have modernized their stores and are using the most scientific merchandising methods known. They are practicing the same modern, waste-eliminating methods that have been found so successful by chain stores, namely, (a) concentration on fresh stocks; (b) longer seasons for seasonable goods; (c) economical operation; (d) cleanliness; (e) good lighting; (f) attractive displays, etc. Accordingly, they are making noteworthy progress.

These "*top-flight*" retailers have joined together in cooperative buying and advertising groups or so-called voluntary chains, such, for exam-

⁸ *Note* According to M. M. Zimmerman's "The Super-Market Grows Up" (Page 4), there are, at this writing, 3,637 individually-owned super-markets in the United States responsible for over a billion dollars in annual sales. Among the corporate chains, Mr. Zimmerman estimates that there are at least 1,200 self-service units in operation. Between them, these two self-service groups control approximately 15% of our total food volume.

In Los Angeles, which is considered the cradle of super-markets, for instance, 41% of the total food sales are claimed by independent super-market operators. In Houston, Texas, over 50% of the total food sales are gained, according to Mr. Zimmerman, by super-markets. These outlets, moreover, claim 50% of the total food sales in Syracuse (N.Y.); 30% in Oklahoma City; 16% in Cincinnati; etc.

Craig Davidson in his article in the Saturday Evening Post (September 17, 1939) defined the super-market as a store with 7,500 square feet or more of floor space with sales of \$250,000 or more annually and with a complete grocery, meat, fruit and vegetable and bakery department, selling for cash, with self-service in the grocery department and with ample parking facilities.

ple, as the Independent Grocers Alliance, the Red and White Stores and similar organizations.⁹ Accordingly, they are enjoying, to the fullest extent, whatever benefits may accrue from mass purchasing and joint advertising. These individual retailers, while enjoying, completely, the benefits resulting from mass buying and cooperative advertising, are, nevertheless, so doing without losing either their own identity or their individuality.

As result of the foregoing, the average annual sales volume of this *first* class of independent merchant is high, namely, about \$43,000 or more per-year. The mortality of this type of store is astoundingly low. These merchants are more than successfully meeting all forms of competition.

OTHER GROCER CLASSES ANALYZED

The second group of independent grocery stores operating in the United States is composed of about 17% of the individually-owned grocery stores of America. According to the Census of Business, these 83,620 independently-owned grocery establishments, in 1935, succeeded in doing \$1,156,026,000 of the nation's grocery business or about 21% of the grocery business obtained in individually-owned stores in America in that year.

The merchants who compose this *second* class of grocery stores, since they averaged less than \$14,500 each in sales in 1935, have naturally found it a difficult task to profit, progress, overcome the emergencies that come to every business and meet the competition afforded them, both by the *first* group of individual-retailers and by the units of corporate chain store companies.

According to the 1935 Census of Business, the balance of the independent grocery business in 1935—about \$1,111,607,000, which amounts only to 20% of the total business done by individually-owned food stores in that year—was done by the remaining 318,517 independent grocery retailers of America.

These 318,517 independent food and grocery retailers, representing 67% of all the independent grocery stores in the United States, sold an

*Note*⁹ Voluntary chains were defined by the American Marketing Society Committee as a "group of retailers each of whom owns and operates his own store either associated with a wholesaler (in rare cases with a manufacturer) or acting cooperatively." They are organized to carry on joint merchandising activities and are characterized by some degree of uniformity of operation. Such joint activities are largely of three kinds: (1) cooperative buying, (2) cooperative advertising and (3) group control of store operation. Corporate and voluntary chains operate in much the same manner. Both purchase in large quantities on approximately equal terms. Both purchase most of their goods for cash and receive the same cash discounts. Small voluntary groups can, and often do, join national associations of voluntary chains through which they secure the benefits of national buying and brokerage services. Independents, by joining voluntary chains, have the advantage of skilled buyers and the wholesaler's warehouse or the group's cooperative warehouse.

average of about \$3,500 worth of food products in that year or barely \$10 a day.

WHAT DO THESE FIGURES MEAN

Manifestly, unless the retailer's sales performance is steadily adequate to care for expenses, for reasonable profit and for emergency needs, he cannot hope for continuance in any business especially one whose heritage is keen competition and the survival of the fittest. It is clear, moreover, that \$3,500 annual sales volume far from meets the foregoing requirements except in "hole-in-the-wall" stores that will hereafter be discussed. Accordingly, the mortality of members of this *third* group of independent grocery retailers is high, as demonstrated by a survey made in Buffalo by Dr. E. D. McGarry of the University of Buffalo who discovered, for example, that, in the food field alone, 60% of the stores opened in one year did not survive long enough to pay a second year's rent.¹⁰

Keep in mind, meantime, that this condition is nothing new in America. There has always been a substantial annual mortality of individually-owned retail stores; the causes of these failures have overwhelmingly been reasons for which proprietors themselves have been responsible.¹¹ Competition has played an insignificant part in causing mortality among individually-owned stores.¹²

Dr. McGarry's original study of the retail trade of Buffalo in 1929, 1933 and 1935 provides authoritative evidence supporting these conclusions.

The McGarry survey demonstrated that even while a substantial number of well-qualified individually-owned stores remain in operation for long periods of years, yet a high rate of mortality occurs in various lines of our American retail trade because of the constant entrance of a large number of individuals into that retail trade who have inadequate experience, training and capital and who, unfortunately, can stay in business only until their meager resources have become exhausted.¹³

1935 BUFFALO SURVEY FINDINGS

It is interesting to note in the McGarry study that approximately $\frac{1}{3}$ of all of the individually-owned grocery store sales in Buffalo in 1935 were made by establishments that had been in business from 6 years up to

Note ¹⁰ Reference Source: Mortality in Retail Trade, University of Buffalo Studies In Business (1930).

¹¹ See Table, p. 24.

¹² See Table, p. 28.

¹³ Dr. McGarry's results are reported in detail in a special publication of the United States Bureau of the Census called "*Changes In Retail Trade In Buffalo — 1929, 1933 and 1935.*" The study covers chain and individually-owned grocery stores and individually-owned drug, shoe and men's apparel stores.

WHY INDEPENDENT MERCHANTS FAIL

Conclusions From Surveys That Were Conducted Probing This Question

MUNICIPALITY (IES) SURVEYED	SOURCE OF INFORMATION
Buffalo, N. Y. (Drug, Grocery, Hardware, and Shoe Stores)	Court records of Buffalo; bankruptcy listings of R. G. Dun & Co.; and advertisements of stores for sale.
Chicago, Ill.	Records of bankruptcy and personal interviews with 397 bankrupt retailers.
Duluth, Minneapolis and St. Paul, Minn. (All Retailers)	Records of R. G. Dun & Co.; Northwest Jobbers Bureau; Duluth Jobbers' Credit Bureau; and court and bankruptcy trustees records for 270 retailers (1933).
Duluth, Minneapolis, and St. Paul, Minn. (Grocery Stores)	Listings of R. G. Dun & Co. (1932).
Knoxville, Tenn. (All Retailers)	Credit associations in Knoxville (1924-35).
Lincoln, Neb. (Grocery Stores)	Profit and loss statements of individual grocery stores for 1923.
Louisville, Ky. (Grocery Stores)	Profit and loss statements of 30 stores verging on bankruptcy (1929).
Philadelphia, Pa. (All Retailers)	Philadelphia bankruptcy court records (1922-36).
Philadelphia, Pa. (Grocery Stores)	Records of the U. S. District Court (January 1, 1925—April 1, 1929).
Pittsburgh, Pa. (Drug, Grocery, Hardware Stores)	Pittsburgh city directories and listings of R. G. Dun & Co. (1937).
Poughkeepsie, N. Y.	City Directories (1843-1936).
St. Louis, Mo. (Drug Stores)	Bankruptcy court records of St. Louis Courts (1925-31).
Waterloo, Ia. (All Retailers)	Listings of R. G. Dun & Co. (1916).
Colorado (10 Types Retailers outside Denver)	Colorado Business Directories (1926-35).
Illinois (11 Types Retailers outside Chicago)	Listings of R. G. Dun & Co. (July 1925—July 1930).
Massachusetts (All Retailers)	Bankruptcy Courts of Middlesex, Norfolk and Suffolk Counties (November 1930—June 1931).
New Jersey (All Retailers)	Bankruptcy Records, Federal District Court of N. J. (1929-30).
Nebraska (All Types in 329 Trading Centers under 10,000 in Southern and Southeastern Nebraska)	Personal interviews with retailers and consumers (1927).

GENERAL CONCLUSIONS

1. That the predominant "cause" of independent store failure is not "competition." The causes of failure of independently-owned stores have shown slight change in all of the years covered by the above impartial, independent surveys.
2. That these studies clearly show that the foremost causes of failure are personal characteristics and operating methods for which the proprietor alone is responsible.
3. That a large proportion of the independent retailers who failed, went into business with virtually no knowledge or experience and with little understanding of the hazards and risks of such an undertaking.
4. That in all of the widely-scattered localities in which the "causes" of independent store failure were studied, no evidence was found, for the periods and for the types of stores surveyed, that the mortality rate among local merchants has been increased mainly because of the growth and development of chain stores or because of chain store competition.

more than 40 years, each. These stores numbered about $\frac{1}{4}$ of the individually-owned grocery stores in Buffalo. The remaining $\frac{3}{4}$ of these Buffalo individually-owned grocery stores obtained about $\frac{2}{3}$ of Buffalo independent food store sales and were in operation for periods ranging only from 1 to 6 years, each.

Dr. McGarry found, furthermore, that about $\frac{3}{5}$ of Buffalo's individually-owned drug stores, in 1935, had been in business from 6 years up to more than 40 years and that these stores obtained about $\frac{3}{5}$ of the sales of individually-owned drug stores in that municipality. About 44% of Buffalo independent shoe store sales, moreover, were obtained, in 1935, by the 53% of Buffalo's individually-owned shoe stores which had been in Buffalo shoe business over 6 years.

Among Buffalo's individually-owned men's apparel stores, finally, McGarry found that those stores which had enjoyed Buffalo life during 6 or more years gained almost $\frac{3}{4}$ of Buffalo's independent men's apparel store sales regardless of the fact that their numbers represented only about $\frac{1}{3}$ of the individually-owned apparel stores of Buffalo in 1935.

OTHER SURVEYS CHECK BUFFALO

Many other impartial, authoritative investigations provide similar conclusions including a study which presents the mortality record of business enterprise in Poughkeepsie, New York, for a period of nearly one hundred years — from 1843 through 1936.¹⁴ The following is a significant excerpt from this study:

"The most important finding of the study, probably, is that business mortality has not increased, even for the small concern, with the growth of large-scale business, and specially with the development of the chain store. The appallingly high death rate which is revealed in this study of Poughkeepsie enterprises is not a product of Twentieth Century business methods. In fact, it seems quite possible that if the large concerns were to be eliminated, the average length of life of the small concerns would be shortened rather than lengthened, since this might encourage even less efficient concerns to compete."

And a survey by Russell L. Furst in Fort Wayne, Indiana shows that the number of chain grocery stores in Fort Wayne increased from none in 1916 to 68 in 1930 and that during this period 40.3% of the independent grocers opening Fort Wayne grocery stores between 1916 and 1930 were out of business within a year.¹⁵ It is even more significant

*Note*¹⁴ *Reference Source*: "Business Life and Death in a Hudson River Town", Ruth Gillette Hutchinson, Arthur R. Hutchinson, and Mabel Newcomer, *Dun's Review*, June 1939. Much of the material originally appeared in "A Study in Business Mortality" in the September 1938 *American Economic Review*.

¹⁵ *Reference Source*: "Relationship Between Chain and Individually-Owned Grocery Stores in Fort Wayne", *Journal of Business*, University of Chicago, October 1932.

that the proportion of independent grocers that went out of business within a year after starting was 38.7% between 1890 and 1904, and that during that period there were no chain grocery stores in Fort Wayne.

The truth of the matter, as previously observed in passing, is that too many people who know nothing about retailing have, for years, been opening retail stores apparently on the theory that all that retailing involves is the ability to finance the rental of a store, anywhere; the purchase of furniture and fixtures; the buying of items to be sold therein; the ability to serve a constant stream of steady customers and the enjoyment of the pleasant sound of an oft-ringing cash register. This is a costly delusion and probably the reason why every one of the many impartial, independent studies yet made on the causes of retail failure identifies the most deadly of these causes as "inexperience"; "incompetence"; "poor choice of location"; "inadequate accounting records," and "insufficient capital" At the bottom of the list, completely out of the running for honors, is "competition"—meaning any and all competition; chain or independent.¹⁸

RETAILING REQUIRES TRAINING AND CAPITAL

Retailing is a trade and there is no more reason why an untrained, inexperienced person should expect successfully to operate a retail store than, untrained and inexperienced, he would expect to fly the Yankee or the China Clippers; to build a bridge or a tunnel; to command an army in battle; or to drive the Twentieth Century Limited. And when the store of the unqualified storekeeper fails, the losses fall not upon him alone, but upon all the American people for, in the long run, it is the public that must absorb all economic waste.

And here, pause is necessary for reference to that type of retail store which is generally termed "hole-in-the-wall."

THE "HOLE-IN-THE-WALL"

While the so-called "hole-in-the-wall" merchant is included in the described *third* class of individual grocery merchants, he has certain characteristics which classify him apart from other retailers composing this "*third*" or "*last*" group. He cannot be driven out of business. He is immune to economic law. Why?

This class of individual food and grocery retailer, that is, the group made up of "hole-in-the-wall" merchants, is composed of individuals who operate food and grocery stores in their front parlors; in small, dingy basement rooms; or on the first floor of private houses. The owner is usually employed as a factory hand, as a laborer, or as a worker elsewhere while his wife or his children alternate in keeping store.

Note ¹⁸ See Tables, pp. 24 and 28.

These units have comparatively no overhead. The owners usually make their homes in the rear of the store, thus obviating the necessity of paying additional rent. They buy merchandise on a hand-to-mouth basis. Their methods of bookkeeping are makeshift. The cost of the complete store, including the land, building, stock and fixtures, is insignificant. One of their main purposes seems to be to purchase their own family grocery needs at wholesale prices.

Though their sales volumes are relatively infinitesimal, their operating costs are so low that they frequently operate profitably. Serving patrons who are their long-time friends, they succeed in continuing in business, year after year, without fear or worry of being put out of business either by chain stores or by their independent competitors.

And with this account, we may now sum up our findings:

NO MENACE IN CHAIN COMPETITION

The *first*, or "*top-flight*" group of independent merchants which is composed, according to the U. S. Census of Business, of 73,875 food and grocery retailers, does 58% of the total food and grocery business obtained in America by individually-owned grocery stores. Within this group are numbered the alert, progressive individual merchants who have been greatly stimulated by the example of the chain store. Over a stretch of many decades, they have justified their existence. Today, they are as firmly entrenched in our economic life as the Rock of Gibraltar is firmly set in the blue Mediterranean. Other things being equal, neither the chain store nor anyone else can drive them out of business.

The foregoing is equally true insofar as those merchants of the *last* group are concerned who are known as "hole-in-the-wall" grocery retailers. Regardless of their minute sales volumes, their low operating costs and steady neighborhood trade make them practically immune to the mortality dangers confronting the average business enterprise.

On the other hand, the independent merchants in the second group and the individual retailers who comprise virtually all of the *third* or *last* group (except the "hole-in-the-wall" merchants) are structurally weak. Having sales volumes which are far below the extent of business required to profit, to progress and to weather the exigencies that creep into the life of every mercantile organization in America, or elsewhere, their prospects of survival are relatively slim.

And it is evidently their structural weakness and neither the competition of chain stores nor anyone else that is substantially responsible for their rapid mortality rate.

What CHAIN STORES MEAN to AMERICA and HER PEOPLE



\$5,782,600,000

in purchases are made by chain stores from U.S. manufacturers and producers.



436,600,000

is paid annually in rents by chain stores in the U.S.A. or represents the rental value of local real estate owned by chain store companies.



141,000,000

is paid annually in the U.S.A. by chain stores for advertising to local newspapers, other periodicals and printers, and for radio broadcasting.

550,100,000

is paid annually by chain stores for freight and trucking services, for fuel, electricity, repairs and for other local services

1,314,100,000

is paid annually by chain stores to their employees in wages.

255,900,000

is paid annually by chain stores for Federal, state and local taxes.

Total Expended Annually in the U.S.A.

8,480,300,000

Conservative estimate of direct consumer savings through lower chain store prices

955,300,000

GRAND TOTAL economic contribution of chain stores to U.S.A. annually..

\$9,435,600,000

plus—The additional and very large savings made by American consumers who buy in independent stores at prices stabilized by chain store competition—savings which would not be made if there were no chain store competition.

\$9,435,600,000
is equivalent to :





More than enough to build 100 Boulder Dams.	Enough to finance the cost of 250 of our largest battleships.	Enough to build 100 paved high- ways from the Atlantic to the Pacific.
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Footnote

An industry-wide research survey was jointly conducted, in the summer and autumn of 1938, by Institute of Distribution, Inc., and by the national associations of food, shoe and drug chains, in which 138 representative chain store companies, of all types, participated. These companies operated more than 33,000 stores, in all parts of the country, and had sales aggregating about 3½ billion dollars in 1937 (the year covered by the survey). The survey results were checked and were certified on January 9, 1939 by the public accounting firm of Peat, Marwick, Mitchell & Co.

These 138 company survey results were then projected, predicated on U. S. Census of Business findings; Harvard Bureau of Business Research Reports, etc., to produce the industry wide United States estimates that are presented above.

PART V

Chain Stores in Present-Day America

The universally-envied position of the American consumer is especially justified when we recognize that the United States accounts for 53% of all the world's imports of coffee; that we use 43% of the world's production of tin; that we take 50% of the world's supply of crude rubber; that we utilize 56% of the world's raw silk; that we have 56% of the world's telephone lines and 32% of the telegraph wires; that we operate more than 70% of the world's automobiles, and that we have 35% of the world's railway mileage.

Chain stores having contributed notably to the improvement of retail distribution in America have, accordingly, rendered substantial service in bringing about the universally-envied position and progress of America.

To be specific, chain stores have exerted commanding influence in the development of (1) dependable quality in merchandise; (2) cleanliness and sanitation in the retail stores of America; (3) lower retail prices for consumers; (4) courteous and efficient retail services; (5) steady work and adequate remuneration for employees; (6) creation and broadening of the nation's markets; (7) improved real estate values and, finally, (8) improved standards of living for the American people.

Realizing that the fundamental duty of every retailer is to give consumers the highest quality products at the lowest possible prices and that goods cost in direct ratio to the number of hands that touch them, chain stores have consistently concentrated on eliminating every wasteful process in their methods of distribution. Retail prices in chain stores are, as result, increasingly favorable to the consuming public.

CHAINS BENEFITING AMERICA'S MASSES ✓

Chain store growth has been centered primarily in the bigger towns and cities. From reliable sources, it is estimated that over 72,000,000 of our inhabitants live within the trading areas of the cities of the United States having populations of 100,000 or over. Add to this the trading population of the cities with 25,000 up to 100,000 and it can safely be estimated that chain stores appeal to from 75% to 85% of the country's purchasing power.

The extensive study of the growth and development of chain stores made by the Federal Trade Commission reveals that, in recent years, chain stores have been extending their operations, more and more, into the smaller communities. This study disclosed, for example, that nearly one-fourth of the stores of the three largest food and grocery chains are located in communities of less than 10,000 in population.¹⁷

*Note*¹⁷ *Reference Source:* United States Senate Document No. 100, 72nd. Congress, 1st. Session.

Summing up the general influence of the chain stores on the merchandising system of America, the Twentieth Century Fund's special research staff says:¹⁸

"Although chain methods have their disadvantages, they have clearly demonstrated the benefits of mass buying under central supervision, careful stock control, rapid turnover, central warehousing, intelligent display and store arrangement, standards of cleanliness and quality, effective use of part-time employees, systematic selection and training of the selling force and elimination of non-essential services. It was soon discovered that many of the advantages of the chains could be adopted or achieved under independent management by better cooperation between retailers, wholesalers and producers. Economies were effected by other types of business operation which have made them better able to compete with the chains. Consumers as well as business interests have been at least partially influenced by the lower price levels of the chains to establish cooperative enterprises to cut the price spread between the production cost of goods and the ultimate selling price."

In other words, the advent and development of chain stores has beneficially affected a great majority of our American public.

CHAIN SAVINGS FOR CONSUMERS

Customers are not, in "cash and carry" chain stores, compelled to pay for unnecessary services which they cannot afford — nor are they compelled to pay for credit or delivery service which some other customer receives. Cash sales eliminate bad debts and avoid the expense of bookkeeping.

Both governmental and independent, impartial private surveys have established the fact that chain store prices, in all fields average more than 10% lower than the average prices of competitive systems.¹⁹ In some retail trades the price difference is even higher, perhaps as high as 12 to 14 cents on the dollar. On the basis of their 1937 sales, therefore, it is estimated that chain stores save \$955,300,000 a year for their customers on necessities of life and on other wanted or needed items.

Of further significance is the fact that chain store customers, in the main, belong to that 90% of our population whose annual incomes average \$2,600 or less. The minimum saving of 10 cents on every dollar — or \$1 out of every \$10 expended in chain stores — or \$10 saved on every \$100 worth of merchandise bought in chain stores is, therefore, a vital benefit for this multitude of average-salaried consumers upon whose purchasing power overwhelming demands are already being made.

*Note*¹⁸ *Reference Source*: "Does Distribution Cost Too Much?", Twentieth Century Fund, 1939, Page 82.

¹⁹ See Tables, pp. 106, 116, 122 and 124.

Moreover, all of this average 10% saving is left with the local consumer with which to buy elsewhere — at the local clothier's, at the local jeweler's, or at the local theatre — thereby stimulating local trade and fostering local prosperity.

Too, chain store values, services and conveniences attract trade to the community, trade that is shared by independent merchant and by chain store, alike. The following excerpt from an issue of Industrial News Review serves to substantiate this important point:

"A number of country editors, in commenting on the chain store question have made the interesting observation that chains tend to bring business into towns from outlying areas. They say that this is especially true of small towns near large cities — when the chain store opens, rural residents will patronize it instead of going to metropolitan shops. ✓

"It is unquestionably true that, in this manner, chain stores have been of tremendous service to thousands of American communities. When a chain store starts in a community, it usually does a great deal of advertising. It distributes handbills. It displays goods in the most attractive fashion, with the aid of the most up-to-date equipment. It attracts business with the twin magnets of good quality and fair price.

"When a chain store stimulates a community's business by bringing in outlying residents, it is of service to all other merchants in the community. The more buyers that visit a town, the more business all merchants do. Independent drug, hardware, grocery, stationery, bakery and similar types of shops cannot help but be benefitted, along with the chain." ✓ ✱

FRESH MERCHANDISE IN CHAINS ✓

In addition to the cash savings of at least 10 cents out of every dollar available to customers patronizing them, chain stores, on account of their concentration on rapid turnover, assure consumers of new, fresh merchandise. Chain grocery companies, for instance, receive fresh products daily, advertise them conspicuously and sell out quickly, thereby making room for another fresh supply. Where sales are slow, products become stale, shopworn and out-of-date, all of which result in losses which are added to the price consumers must ultimately pay. The rapid rate of turnover in a chain store eliminates losses and gives consumers new, fresh and high-grade products for less money.

WORLD PRODUCTS TO MAIN STREET ✓

The buying facilities of chain store companies bring to local neighborhoods, at prices within the means of American consumers, the most desirable products of the world . . . seasonable products from every section

of America as well as "style" items that were formerly in the "luxury" class. Accordingly, chain stores are now bringing items to the "masses" of America that formerly were available only to the very fortunate "few."

Because their success depends entirely on public confidence, chain stores cannot afford to guess at quality. Every article offered in their stores is carefully selected and is given every known scientific test to assure consumers of high quality. The Kroger Grocery and Baking Company, for example, has invested huge sums in its Kroger Food Foundation in order that it may improve even the present high grade of the food products that it offers to customers over its counters.

STIMULANTS TO AMERICAN PROSPERITY

Consumers, however, are not the only ones who have been benefitted by the facilities of the chain store industry. Reliable estimates indicate that nearly one-third, or over \$2,500,000,000 of their total annual receipts is left by chain stores in the various local communities in which they operate stores to pay for rents, wages and taxes and to cover the cost of trucking, advertising, repairs, heating and electricity.²⁰ This sum is equivalent to more than twice the cost of building the Panama Canal.

Approximately \$1,314,100,000 of this \$2,500,000,000 sum, alone, is paid by chain stores to the 1,307,900 men and women working in their stores, offices and warehouses.

Full-time chain store employees have steadier work, better working conditions and 14% average higher wages than employees of competing establishments.²¹ These employees represent a fine cross-section of American life. They work for a living; are reasonably steady in their jobs; marry and have children; support their families and dependents; and buy life insurance to protect them. Many of them buy homes of their own; many of them have automobiles; and most of them have radios. Practically all pay taxes and contribute to charity. They join lodges and other civic organizations, and a fair proportion assume positions of some importance in their communities.

CHAIN STORES: COMMUNITY BUILDERS

In the latter connection, it is interesting to note that 12,396 employees of 78 representative chain store companies that were recently surveyed are officers, committee chairmen or other important leaders in local

*Note*²⁰ It is estimated that besides this \$2,500,000,000 chain stores expend \$5,782,600,000 annually in purchases from manufacturers and producers. The balance of their annual receipts goes to cover interest on their investments; cost of reinvestments in new store buildings in local communities; cost of improvement in existing store properties; cost of financing investigations of product improvement; and for reasonable profit as their reward for successful business operation. (See illustration, Page 32).

²¹ *Reference Source:* Census of American Business, 1933, Chains and Independents, Table 3, Page 3.

Chamber of Commerce, Service Club and other community welfare and service activities.²² Of these, 279 are mayors or other officers of municipalities. This 12,396 figure does not, naturally, include the multitude of other chain store employees who are merely members in good standing of such local civic organizations.

Examples of the service of chain store managers as community builders are ample. Three, selected at random, are presented for illustration:²³

WILLIAM E. BERRY, Montgomery Ward & Co., Minot, N. D. — Vice-president and funds drive chairman of Community Chest which was over-subscribed. Chairman, Retail Merchants' Group of Association of Commerce. Directed cultivation of new trading areas extending across border into Canada. During summer months, from \$7,000 to \$10,000 of Canadian money cleared through local banks after week-ends. Elected president of Kiwanis Club after serving as vice-president. Organized new Boy Scout troops over a territory of several hundred miles and revitalized existing troops. Chairman of City Recreation Council which sponsors playgrounds and other youth activities. Co-chairman of "Sales Mean Jobs" campaign to stimulate local business and relieve unemployment. As director of Salvation Army Advisory Board, helped broaden Army's local service. Success on membership committee of Minot County Club brought his election as membership chairman for 1939. Active worker for B. P. O. E.

O. S. HILLMAN, H. L. Green Company, Columbia, S. C. — President, Merchants' Association. Member City Council. Member county delegation to General Assembly to represent Columbia in negotiations with the Santee-Cooper Canal Authority to insure navigation from the ocean to Columbia. Mayor's business-organization consultant on bringing new industries to city. Aided in increasing the enrollment of the university at Columbia to the university's highest enrollment figure. Finance chairman, Advisory Board, Salvation Army. Raised substantial portion of the funds that were needed to purchase three new trucks for the Salvation Army which during 1939 delivered 6,000 loads of wood to the poor. Helped to make it possible for the Columbia Edition of the Salvation Army's War Cry to be published. Director, Children's Clinic. Member, Boy Scout Council. Director, day nursery. Director, orphan's home. As president of Merchants' Association is ex-officio member of Chamber of Commerce and is active on Chamber committees. Director of school

Note ²² This survey was conducted by Institute of Distribution, Inc., and the national association of food, shoe and drug chains and was certified by the public accountants, Peat, Marwick, Mitchell & Co.

Note ²³ From article "What Some Community Builders Did", Chain Store Age, Variety Store Executives edition, August, 1939, Page 65 ff.

clinic for under-privileged children. A founder of Columbia Exchange Club and its first president.

CLYDE J. STEVENS, S. S. Kresge Co., Bluefield, W. Va. — President, Business Men's Association. Promoted construction of new street in heart of business section. Responsible for holiday decorations and other projects sponsored by Business Men's Association. Headed retail division in Community Chest campaign, his division being one of few to raise more than quota. Vice president, Kiwanis Club, in charge of all committee work. Vice chairman, Red Cross Roll Call which went over the top. In charge of all direct relief work of Red Cross chapter. Director, Union Mission. Treasurer, Southern West Virginia Council, Boy Scouts, embracing a dozen counties. Treasurer, Retail Bureau, Chamber of Commerce.

BENEFITS OF CHAIN EMPLOYMENT

Sixty-nine reporting companies in the 138 company survey described on Page 14, maintain profit-sharing plans; 89 maintain employee group insurance; 63 have programs underwriting sick benefits; 112 have other well-established employee benefits. Not one reporting company was found in which provisions do not exist for assisting employees during illness and disability.

And, apropos of chain store employment, attention is here called to the testimony that was presented on December 5, 1938 by Mr. M. B. Fetzer of a Washington, D. C. unit of the well-known Peoples Drug Stores, Inc. before the sub-committee of the Committee on Finance of the United States Senate in connection with that sub-committee's survey on experiences in profit-sharing and possibilities of incentive taxation. Senator Clyde L. Herring of Iowa is the interrogator.

SENATOR HERRING: "You are Mr. M. B. Fetzer?"

MR. FETZER: "Yes, sir."

SENATOR HERRING: "An employee of the Peoples Drug Co.?"

MR. FETZER: "Yes, sir."

SENATOR HERRING: "Your vice president was here the other day and told us about the operations of your company. We are glad to have you come in as an employee of the company and tell us, from your angle, what you think of it."

MR. FETZER: "Thank you. Are there any particular questions?"

SENATOR HERRING: "Just proceed in your own way."

MR. FETZER: "Well, I have been with them 17 years. I am now manager of one of their larger stores. We are paid a very substantial salary, and also we work on a profit-sharing basis, taken from the net profits of our store operations; 3 per cent of the net profits being taken and

divided between the manager and his assistant, 75 and 25 per cent, respectively.

"The employees come under what we call a 'wage-dividend basis' besides their salaries. That is 25 per cent, 35 per cent, and 50 per cent. Over 6 months' continuous service entitles them to 25 per cent; to 2 years, 35 per cent; and 2 years and over it is 50 per cent of a month's salary.

"Then we have a number of protections in our organizations, such as, life insurance, health and accident; we have hospitalization, and we have old-age retirement. The employee pays about 65 per cent on the premium. With the exception of hospitalization—that is given to us absolutely free. They offer us 70 days of sickness, and \$4 a day to pay for the hospital room. They give us \$20 for anesthetics and X-rays."

SENATOR HERRING: "About what is your annual salary without the profit-sharing, would you say?"

MR. FETZER: "You mean in dollars and cents?"

SENATOR HERRING: "Yes."

MR. FETZER: "Mine runs around \$3,800."

SENATOR HERRING: "Without the profit-sharing?"

MR. FETZER: "Yes, sir."

SENATOR HERRING: "That is as much as any of the other drug companies are paying for similar work that do not have profit-sharing?"

MR. FETZER: "I believe so, sir."

SENATOR HERRING: "And in addition to that you get 75 per cent of 3 per cent of the profits of the stores that you mentioned?"

MR. FETZER: "Yes, sir. We also get life insurance, that has a limitation to it. If you want me to go into detail, I can do so very easily."

SENATOR HERRING: "No, that will not be necessary."

MR. FETZER: "The health and accident, of course, gives us two-thirds of our salary every week for 13 weeks. The assistant manager and manager draw full-time at all times, they are not deducted. I believe that is also true for the executives. The old-age annuity calls for retirement at 65 years of age, 55 years of age optional."

SENATOR HERRING: "You have had this profit-sharing plan for the full 10 years that you have been with the company?"

MR. FETZER: "Yes, sir, the full 10 years since I have been with the company. I have been 17 years with the company. I have shared in the management end of it for 12 years.

"We have the vacations, we have picnics and social functions. We have an educational program that I think is an outstanding thing of the country. We have a promotional department in our stores. We

have a man who teaches new employees. The management also comes in and makes different talks on things they have in mind. Then outside of that we have an educational program that permits students to go to the George Washington University. We draw the prospective students from the various departments throughout our stores, through their application. Twelve boys are chosen to take entrance examinations to George Washington University, and out of that bunch would be five that pass. We furnish them with money and part-time work while they go to school, and after they are graduated they are not obligated to work for the company unless they see fit to do so. They have 10 years to pay the money back. There is little to pay back, because they get part-time pay while they go to school and it almost carries them.

"Then we have another thing that I think has created quite a good feeling in our organization. When there happens to be a new-born baby coming along, this maternity kit goes to the home. That creates one of the best feelings that I think you can possibly have.

"We have a credit union within our organization, where we can borrow or deposit money. They pay us dividends of 6 per cent. They charge us 1 per cent of the monthly loans up to \$399, and one-half of 1 per cent over that."

SENATOR HERRING: "How many employees are in the store that you manage?"

MR. FETZER: "One hundred and three."

SENATOR HERRING: "What is the labor turn-over there?"

MR. FETZER: "I have very little labor turn-over. In the food department is my heaviest turn-over. We have perhaps a 5 per cent turn-over due to employing many boys during school vacations."

SENATOR HERRING: "A 5 per cent turn-over?"

MR. FETZER: "Yes, sir."

SENATOR HERRING: "Do you have much loss from shortages or breakage?"

MR. FETZER: "We have very few."

SENATOR HERRING: "You have very few of those things?"

MR. FETZER: "Yes."

SENATOR HERRING: "I mean from your employees."

MR. FETZER: "We have a department in our warehouse that we call the obsolete department, and they furnish us cost credit on losses."

SENATOR HERRING: "What I mean is the shortages of cash on the part of the employees"

MR. FETZER: "We have an overage and shortage fund. Each employee is allowed 25 cents a day."

SENATOR HERRING: "I mean from dishonesty."

MR. FETZER: "I have had very little of that. I have had three cases in 4 years."

SENATOR HERRING: "I am trying to get the effect of this policy on the honesty and efficiency of the employees."

MR. FETZER: "I misunderstood. I thought you meant merchandise breakage."

SENATOR HERRING: "You think it helps in that respect?"

MR. FETZER: "Oh, my Lord, yes, sir. We have had three cases in 4 years of actual theft when cash was involved."

SENATOR HERRING: "So it is really a help in that direction?"

MR. FETZER: "I'll tell you, when a man comes to our store he never wants to leave. We have had that impressed on us time after time. I have promoted over 200 boys and girls from our store into other stores of the organization; I trained them there; and if they leave our employ everyone of them wants to come back"

SENATOR HERRING: "This policy you have been outlining, you think, has had much to do with that?"

MR. FETZER: "I think it has all to do with it. They know their chances for promotion are 100 per cent; they know they are going to be treated right; and they also know that they are getting a living wage."

SENATOR HERRING: "I think that is very fine. Unless you have something else, Mr. Fetzer, we appreciate your coming over."

MR. FETZER: "I have outlined about what the operation of my store is."

SENATOR HERRING: "Thank you very much."

CHAINS AS VALUABLE TENANTS

Chain store rentals and the rental value of owned property aggregate about \$436,600,000 annually or the equivalent of about two-thirds of the Federal income taxes paid annually by individuals in the United States.

This \$436,600,000 means \$845,000 expended every day in the year for chain store rents plus \$350,000 daily in the rental value of the local store properties, warehouses, and headquarters that are owned by chain store companies in hundreds of towns and cities.

And when Mr. Local Property Owner leases his store to a chain store organization, he is reasonably certain of three things, namely, that the establishment won't fold up within a year or so leaving him with an untenanted store on his hands; that his rent will promptly be paid, and, finally, that his property will be well-cared for throughout occupancy. ✓

While chain store companies are estimated to own more than 9,000 local store, office and warehouse properties having a total value of over a

billion and a quarter dollars, most of the chain stores in America are, nevertheless, rented from local property owners. It is, therefore, safe to assume that the foregoing three-fold benefits are passed on to a substantial number of local property owners. In this connection, it should be noted that the average per-month rent paid in 1937 by chain stores in America was estimated to have been about *three times higher* than the average per-month rent paid by *all* other retail stores.²⁴

Busy, modern chain stores, furthermore, attract trade to the center in which they are located. A booming business in any location naturally increases the property value of that store. A rush business by many merchants in the same trade area naturally increases property values in the entire neighborhood.

Chain stores are neighborhood institutions. They are always busy. Since business breeds business, they not only attract customers to their own doors, but likewise bring business to the stores, shops, theatres, etc. which are located in the same trading area. That's why so much demand for neighboring locations usually occurs when the chain store comes to a shopping area; that's why property values have increased and the commercial importance of communities has generally advanced after the chain store came.

THE NEEDS OF MASS PRODUCTION

Large-scale production, as we know it in this country, is the outgrowth of the Machine Age. Due to the invention of machines and to the improvement in technical processes, the capacity of American industry to fabricate on a large scale developed rapidly in the United States during the last third of the Nineteenth Century. The World War gave added impetus to industrial development in America.

In the early 1920's, this development was supplemented by still further refinements including standardization of processes and technological improvements in operation, policies, organization, personnel, facilities and methods.

A few of the most frequently-cited social and economic benefits of mass production are:

- (a) Development, at low cost, of new products, and improvements in old products, thereby bringing articles to the retail market which add convenience and comfort of living to the average-salaried consumers of the land at retail prices within their means.
- (b) Development of standardization and dependability in the quality of products with resultant protection and benefit to the consuming public.
- (c) Reduction in the unit cost of finished products which, in turn, result in lower retail prices for consumers.

Note ²⁴ Data based on surveys by Dun and Bradstreet, Inc.

- (d) Development of new markets for the producers of raw materials and for the producers of capital goods.

If the benefits of mass production were to become available to the consuming public, two factors were necessary in order effectively to complete the cycle of production and consumption, namely: (1) ability and desire of consumers to absorb the output; (2) effective retail distributive agencies and channels through which goods might be transferred from farm and factory to American consumers.

Progress necessitates readjustments. The advent of illuminating gas created a problem for the makers of kerosene lamps. Electricity made gas mantels obsolete. The automobiles gave the railroads competition. Electric refrigeration produced a problem for the ice industry. Oil burners affected the coal business, and the radio virtually displaced the phonograph.

Accordingly, as mass production approached perfection in the United States, the demand for a distributive system in this country that could effectively team with it in bringing huge output quickly, economically to America's masses, became insistent. The development of chain stores and their stimulation of progress among individual retailers finally provided mass production with the improved distributive system which was needed to keep the wheels of American progress turning.²⁵

CHAIN STORES BENEFIT MANUFACTURERS

Today, chain stores buy approximately \$5,782,600,000 worth of products from manufacturers and producers. With their appropriation of about \$141,000,000 annually for advertising, they not only popularize the manufacturers' products, thereby increasing the manufacturers' volume, but they likewise assist greatly in furthering national prosperity, generally.

At this point, it may be helpful to direct attention to "Pennsylvania Days For Pennsylvania Prosperity", one of several cooperative promotional efforts undertaken by chain stores in order to help restore business prosperity and increased employment at needed points.

Forty-six chain store companies, of all types, cooperated, in March 1939, in a mammoth promotional campaign to generate Pennsylvania

*Note*²⁵ Until late in the Nineteenth Century, the distribution of most commodities followed certain well-established channels. From source of supply, goods flowed through numerous middlemen to retailers, finally to consumers. There was a crying need for a remodeling of the old channels of distribution, in order that goods might be brought to the consumer as economically as possible. Efficient, large scale retailing was necessary in order that the economies of mass production might be passed on effectively, economically to America's masses.

Department stores, mail order houses and chain stores developed as an answer to this demand. By purchasing for the most part directly from producers, these modern forms of merchandising integrated the distributive functions, eliminated unnecessary and wasteful steps in retail distribution and passed on resultant economies to consumers in the form of lower prices.

business recovery and to increase Pennsylvania employment by stimulating consumption of Pennsylvania-made products.

To sell more, chains naturally had to buy more. And in the instance of "Pennsylvania Days", chain stores, for Pennsylvania-made or grown products, expended over \$2,000,000 daily during the ten-day campaign period. Thus, over \$20,067,000 worth of Pennsylvania products were offered by chain stores, at chain store prices, to Pennsylvania consumers representing an increase of approximately 60% over normal Pennsylvania chain store purchases for this period.

Pennants, banners, signs and streamers heralding "Pennsylvania Days For Pennsylvania Prosperity" were displayed in participating stores. Special advertising sections in more than 50 newspapers throughout Pennsylvania proclaimed the campaign and its purpose. Twenty-five Pennsylvania radio stations, on chain-paid time, urged consumers to "buy Pennsylvania products, benefit yourself, speed Pennsylvania prosperity."

The following are two typical company advertising excerpts:

"... while Pennsylvania-grown and manufactured products are offered for sale every day in this company's thousands of stores throughout the country, we are particularly proud to have this opportunity of demonstrating our sincerity in this promotion to increase the speed of the state's wheels of industry."

"... these garments are made in Pennsylvania, for Pennsylvanians. Factories throughout the state have been going steadily. Thousands of Pennsylvanians have been on the job day in day out. Ask for Pennsylvania-made goods, you'll benefit yourself and boost Pennsylvania."

Consumers naturally benefitted from this Pennsylvania effort through increased values; producers of the Keystone State benefitted through expanded business; labor benefitted in the creation of new jobs; chain stores benefitted through increased sales; Pennsylvania, in fact all America benefitted because all the foregoing benefitted.

CHAINS ARE RELIABLE CUSTOMERS

✓ Chains, as a class, are an exceptionally good credit risk, with the reputation of paying promptly. They afford manufacturers a flexible retail organization that can effectively and economically be organized into local, sectional or national groups for quick tryout-campaigns to determine the consumer value of their products.

The benefit of chain stores to smaller manufacturers is demonstrated by the following letter, selected at random:

"We are a small toy factory which started in business in the Spring of 1933, and, at first, tried to distribute through jobbers and individual department stores. The cost of selling in this way, and the small amount of goods we sold necessitated such a high retail

selling price for our products that we did not do enough business to continue operations. We are now concentrating our efforts on chain store accounts, and whereas we used to employ twenty-five people in a season, we now employ upwards of one hundred, and our busy seasons are three times as long."

In chain stores, therefore, manufacturers find a ready-made market for their merchandise, a market constantly sustained by advertising and research. The availability of such a market obviates the necessity for extensive promotional and market development expenditures on the part of many manufacturers, stimulates more rapid and regular turnover of manufacturers' inventories, eliminates the congestion of merchandise in storage, liberates otherwise frozen capital and aids, noteworthily, in maintaining employment among manufacturers at normal level, year-round.

By getting the manufacturer's product to the consumer at a lower cost of distribution and with fewer intermediate profits, the chain store tends to keep down the retail price to the consumer while at the same time increasing both the manufacturer's (or producer's) volume and his profit.

CHAIN STORES AND THE FARMER

Let's turn back to the summer of '36 when the great drought descended upon the Mississippi valley.

The vast plains of the West and Midwest where cattle were being fattened for market were blistered and dried to a powder. Stock had to be rushed to market and the July slaughter was the greatest in history, with the exception of one month during the great World War. Cattlemen faced a crisis that threatened ruin; the market was trembling on the verge of a disastrous tailspin.

In desperation, they called upon the National Association of Food Chains for help which immediately went into action. By August first, 44 chain grocery store companies, with nearly 33,000 stores, had launched a Nationwide Domestic Beef Campaign and in one of the least promising months for the sale of beef, advertised beef, displayed beef, flew banners, pennants and posters that glorified beef steaks and beef roasts; shouted beef over the air; printed millions of recipes; held employee sales meetings — all in behalf of beef — and, what is most relevant, *sold* beef. They sold it in unheard-of quantities.

While sales of beef at all stores were moving up 16 percent, chain store beef sales soared 34.7 percent. And, in a glutted market, prices paid to cattlemen were not only maintained but were kept above a five-year average.

CITRUS AND LAMB REHABILITATED

The Department of Agriculture called the 1935-'36 grapefruit crop the "Nation's No. 1 Surplus." Growers who were sitting on the dynamite

of the greatest harvest of all time agreed until someone thought about appealing to the food chain store companies. After that, a chain store promotion campaign swept the country, liquidated the surplus and registered the incredible volume increase over the previous year's record of 284.7 percent.

Lamb breeders feared disaster as they viewed surpluses piling up, due partly to the forced slaughter which had been brought about by the drought and partly to competitive surpluses in other commodities. They organized a national committee to ask aid of the food chains.

The selling machine of mass distribution swung into high and this is what happened: 59 percent more lamb moved through multiple unit outlets during January and February, 1937 than in the same period the year before. Prices to producers advanced from \$8.40 per hundred weight on December 1 to \$10.50 in January, then moved above the 13-dollar mark in March which saw the best market since 1929. And, gratifyingly, these better prices for the producer did not levy a tax on the consumer. No retail price rise occurred through the entire period of the campaign. This, clearly, was an impressive achievement in streamlined distribution.

AID FOR KING COTTON

Every year the big guns of non-grocery chain store promotion, spear-headed by Institute of Distribution, Inc., lay down a heavy barrage ahead of the cotton market. Hundreds of thousands of dollars are spent by companies advertising cotton products. Banners, broadsides and bunting are unfurled over the consumer market and a torrent of cotton values flow to consumers across chain store counters both to consumer and to company benefit and to the benefit of King Cotton and his 12,000,000 surplus-distressed dependents.²⁶

Except for space limitations, it would be possible to describe numerous nationwide promotional efforts by chain stores, both food chains through the National Association of Food Chains and non-grocery chains through Institute of Distribution, Inc., the National Association of Chain Drug Stores and the Limited Price Variety Stores Association to expand the farmers' market for various farm commodities.

Examples could be presented in abundant numbers demonstrating how mass distributors have been able to extend to agriculture something more

Note ²⁶ See "Chain Stores Fight Cotton Surplus" published by Institute of Distribution, Inc. (1939).

concrete than goodwill — something that farmers could put in the bank and use to pay their bills and educate their children.²⁷

FARM-AID PROGRAMS

Constructive farm-aid programs have been financed and carried through by many individual chain store companies. Instance in point is the program by Sears, Roebuck whereby 550 farm boys from 25 states are now attending agricultural college on Sears' scholarships.

The same company is offering short courses for young farmers; it is helping to create a livestock industry in the South by donating blooded stock through the 4-H Clubs; it is providing national competitions for 4-H boys and girls designed to promote the aims and ideals of that fine and fundamental youth movement; it is making 4-H motion picture productions available free to literally millions of 4-H members and their families.

OTHER CROP DISPOSAL CAMPAIGNS

Within the last several years, chain stores have staged national promotional campaigns on the following commodities: cotton, milk and milk products, fresh and canned grapefruit (at different times), fresh and canned peaches, lamb, eggs, apples, walnuts, prunes and citrus fruits.

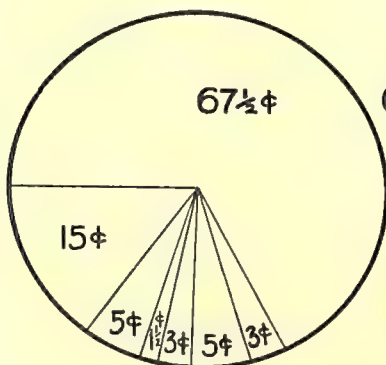
Other campaigns, of varying dimensions but of less than national stature, were staged on the following: turkeys, avocados, Washington State apples, canned peaches, Florida oranges, cheese, potatoes, Idaho cherries, canned tomatoes in the Northwest, sweet potatoes on the Atlantic Seaboard, grapes, cranberries and tangerines.

Regional or national, chain surplus crop disposal campaigns feature exhaustive promotional activity. Extensive store displays, in turn, are supplemented by abundant newspaper advertising. Copy and layouts, in the latter case, are prepared by the company's headquarters staff but are locally inserted and paid for by company units, which frequently supplement the schedules with their own advertising.

Note ²⁷ In January 1936, warehouses were bulging with a carry-over of 6,490,000 cases of peaches — a figure 72 percent greater than the previous year. Cannerymen were offering farmers only \$14 to \$15 a ton for the oncoming crop which was less than the cost of production. The situation required quick disposal of the carry-over in order that the prices of the new crop might be stabilized and farm incomes saved. As result of the substantial marketing campaign staged by the food chain store companies, the canned peach carry-over was reduced by June of that year from 6,469,000 to 1,343,000 cases and the growers received \$30 a ton for their crop or double the original offer from the cannerymen for the new crop. *Reference Source*: Millbury (Mass.) Journal, (August 19, 1938).

WHAT BECOMES *of the* MONEY YOU SPEND IN CHAIN STORES ?

OF YOUR DOLLAR...



67½¢ Goes to manufacturers and producers who sell chains the goods you buy. Many of these manufacturers and producers are local businessmen employing local residents.

15¢ Goes to pay the wages of local residents who are gainfully employed by chain stores in stores, warehouses, offices, etc.

5¢ Goes to pay the rentals of U.S. chain stores to owners of local property.

1½¢ Goes to pay the cost of chain store advertising, of all types, in the U.S.A., including radio and newspaper and for the local purchase of stuffers, handbills, etc.

3¢ Goes to pay Federal, state and local taxes.

5¢ Goes to cover all other chain store expenses such as light, heat, insurance, memberships in local civic organizations, donations to worthy local welfare enterprises, etc. the bulk of which, naturally, is paid to local residents and to local business, service and welfare organizations.

Total **97¢** ----- **AND** -----

THE REMAINING 3¢ of your Dollar is left to chains,

not for hoarding, but to cover interest on their investments; for reinvestment in new store buildings in local communities to local benefit; for improvements in existing store properties; to finance investigations of product improvements in order to enhance merchandise standards and effect production and marketing economies; to provide a fund for rainy days; to give them a margin of operating safety and ... *finally* ... to provide them with a profit as their reward for successful business operation. And since more than one-third of all the chain stores in the U. S. are owned outright by local citizens, and since a multitude of local citizens, in all walks of life, as their stockholders, really own most of the other chains, it is clear that the bulk of even this slim reward returns in dividends to thousands of widely-scattered communities and remains there.

Footnote

The foregoing data are industry-wide *averages* covering *all* types and *all* sizes of chain stores. By respective trades, they naturally vary with field.

A typical case demonstrating the benefit of chain promotional campaigns exists in 1939 Dairy Month.

CHAINS AND THE DAIRY FARMER

Facing disastrously-low prices due to huge milk production, farmers asked organized retailers, chain and independent, for promotional help. Retailers responded by actively participating in Dairy Month held during June, 1939.

In this promotional effort, 87 non-grocery chain store companies served by Institute of Distribution, Inc., operating 15,000 stores, coast-to-coast, advertised milk in 145 miles of window displays; their radio programs told the milk story to 40,000,000 listeners. Their inside store displays reached 20,000,000 shoppers daily.²⁸

Worthy of attention is the fact, for example, that though June, 1939 sales of all types in variety stores increased, according to the U. S. Department of Commerce, by only 5.5% over June, 1938 sales, yet, as outcome of extensive, coast-to-coast, promotional activities, the sale of milk in the soda fountains, luncheonettes, and restaurants of variety store participants increased during the 1939 campaign period, on a group average, by 28.5% over a corresponding period in 1938; by 63.4% over the same period in 1937 and by 120.4% over a corresponding period in 1936.

Moreover, in the many units of participating restaurant companies, sales of cool, refreshing milk mounted, during the 1939 campaign period, by an estimated 10.6% over a corresponding 1938 period.

RAILROADS, BANKS AND THE CHAINS

The welfare of railroads and banks, too, has been beneficially affected by the chain store industry. Chain stores, for instance, have substantially reduced the great evil of using freight cars for limited periods for storage purposes. Stressing distributive speed, they have stimulated the regular flow of merchandise, with no congested periods. For banks they have eliminated much of that unwholesome credit formerly tied-up in slow-moving inventories and have effected the quick liquidation of loans — a particular boon in times of credit stringency.²⁹

No group, however, has been benefitted by the advent of chain stores more concretely than the efficient individual retailers of this country. The

Note ²⁸ See "Chain Stores Attack America's Dairy Problem", Institute of Distribution, Inc. (1939).

²⁹ In the 138-company research survey, certified by the public accountants, Peat, Marwick, Mitchell & Co., it was found that 19,085 local store bank accounts were maintained, as of December 31, 1937, by reporting companies to safeguard over \$58,000,000 in local deposits, representing an average of over \$3,000 per-account. In addition, reporting companies maintained 821 other bank accounts to safeguard over \$96,000,000 in deposits, representing an average of almost \$117,000 per additional account.

quicken tempo of distribution, the keen competition afforded them by chain stores, the development of trading areas by chain stores — all have contributed much to the progress of independent merchants.

MERCANTILE PROGRESS IS STIMULATED

No sooner had improved, modern distribution become wedded to mass production, than farsighted, alert individual retailers recognized the need of keeping step with changing business trends in the United States.

Having perceived the urgency of courting self-progress by altering their practices to conform with the requirements of modern retailing, they accepted the valuable examples of chain stores and, accordingly, added the advantages of scientific merchandising to the benefits of private ownership.

The further these progressive merchants probed into self-improvement, for example, the clearer became the conviction that it was no longer enough for a store to put up a sign "Home-Owned" to attract trade. They recognized that the consumer increasingly wanted "value" and in shopping for "values" preferred an up-to-date store, well-kept, offering a complete assortment of reliable items, attractively presented.

Accordingly, these efficient, farsighted retailers shed the merchandising policies and practices of the old order, embraced the policies and practices of modern America and did so to their own profit and progress.

An increasing number of independent merchants modernized their stores along more scientific and up-to-date lines. Having studied chain store operating methods and policies, they adopted, even refined, these scientific methods to their own advantage. Aside from improving the appearance and cleanliness of their stores, they adopted higher standards of quality for their products; they packaged goods that they had formerly sold in bulk and improved their merchandising and marketing methods, generally.

To multiply the purchasing power of their dollars, they swelled the ranks of the cooperative buying and advertising groups that rapidly developed in America.⁸⁰ Today, for example, fully a third of America's retail food business is being done by independent grocers who are reaping the full benefits of mass purchasing power through the cooperative buying groups with which they have affiliated themselves. Hence, the general efficiency of the average individual retailer, inspired by chain stores, has mounted sub-

*Note*⁸⁰ In six years — from 1930 to 1936 — voluntary chain groups in the food and grocery field increased from 551 organizations, operating 59,640 stores, to 802 different groups representing 107,141 individually-owned retail outlets. This figure has probably mounted to 110,000 or more stores in 1939. (*Reference Source*: "Group Selling By 100,000 Retailers", American Institute of Food Distribution, Inc. (1936).

stantially.³¹ Side by side with chain stores, they are providing this nation with the world's best distributive system.

And, since the United States provides its retailers with over \$33,000,000,000 in retail business to be shared amply by all, and since each type of retail outlet, chain or independent, has a specific role to fill if 130,000,000 Americans are effectively, economically to be fed, clothed, shod and medicined, it seems safe to say that both types of retail establishments are here to stay.

And at this point it is pertinent to consider the question "who owns chain stores?" that is so often asked by many people.

WHO OWNS THE CHAINS?

About 90% of the chain store companies in the United States are *local* enterprises which are owned and controlled locally, which buy from local producers, which employ local workers, which rent from local property owners and which, in fact, prosper as the local community prospers.

The remaining group of chain stores — predominantly composed of national and sectional companies — are owned by their stockholders — including many laborers, widows, bookkeepers — persons in every walk of life.

It is estimated that there are about 1,700,000 citizens who own stocks and bonds of chain store companies, representing an average of about 13 stockholders for each chain store unit. If these stockholders were ever assembled at one time, they would fill, to overflowing, the 18 largest football stadiums in this country.

The net profits of chain stores do not accumulate in bank vaults. They go back to these 1,700,000 citizens who live in thousands of communities from the Atlantic Ocean to the Pacific and who, as the principal stockholders of these companies, are their real owners and control their destinies.³²

THE CHAIN STORE IN SUMMARY

Hence, the chain store is nothing more than a method of distribution, involving the operation of two or more stores under common management, ownership or ultimate control engaged in the sale of the same general kind of goods, wares and merchandise.

Note ³¹ The Twentieth Century Fund's special research staff, in its report on distribution costs, said this: "The chains inaugurated new methods of buying and selling and demonstrated new advantages and economies which woke up hundreds of thousands of independent merchants and their customers to the need of better shopkeeping and a speed-up in the flow of goods. In many a country village, the presence of a modern, systematized chain store has jolted the local storekeeper out of his easygoing habits to the benefit of the whole community." (*Reference Source*: Page 82, "Does Distribution Cost Too Much?", Twentieth Century Fund, Inc.).

³² See Page 48.

There are three types of chain stores in this country, classified according to the extent of their trading operations, namely — *National*, *Sectional* and *Local*. The 6,079 chain store companies that existed in the United States in 1935 (the latest year for which governmental data are available) operated less than 10% of the nation's retail outlets — or 139,810 units — and did 22.8% of the country's retail business — or \$8,460,611,000 in total annual sales.

Chain stores experienced their greatest growth after the great World War. Since that time, their annual business has expanded from about 4% of the total American retail sales in 1920 to over 25% in 1933, with a drop to under 23% in 1935.

In making this progress, chain stores have helped tremendously to reorganize the entire American distributive system to the benefit of consumers, producers, labor, and the public in general. As result of their scientific operating methods, chain stores are annually passing on to consumers at least \$955,300,000 in savings. Moreover, the \$2,500,000,000 that they expend in rents, wages, and for lighting, heating, repairs and other miscellaneous costs in the towns and cities in which they operate, is equivalent to nearly as much as the annual cost of residential, industrial and public construction in thirty-seven states East of the Rocky Mountains.

The welfare of farmers, manufacturers, newspapers, railroads and even competitive individual retailers has substantially been enhanced by the growth and development of chain stores. And as they have come of age, chain stores — which are actually local organizations owned by thousands of stockholders scattered in practically every city and in every town in the United States — have transferred great benefits in terms of values, services and conveniences to thrifty citizens — especially to those millions of average-income consumers who compose 90% of America's population and who are the principal patrons of chain stores.

CHAPTER TWO

THE SAGA OF THE MODERN AMERICAN CHAIN STORE

Chain stores have attained their present position in the economic life of the United States primarily because there was an insistent public demand for a method that would eliminate excessive and unnecessary costs in retail distribution.

To a field largely characterized by inefficiency and lack of modern organization, the chain store brought an orderly, progressive retailing system that not only made rapid progress because of the values, services, conveniences and the higher standard of living that it brought to the American public, but which also stimulated advancement on the part of its alert competitors and revitalized the entire distributive process of the American nation to the great benefit of the American people.

For a clear understanding of the major factors underlying this development, let us turn the clock back to early America and review the major mileposts of merchandising history in this country.

PART I

Retailing in Pioneer America

Our earliest retailing was conducted by the Indians, who carried on an inter-tribal trade in foodstuffs, in implements, in skins, etc. There were no middlemen, nor did retailers exist. Any person or tribe with a surplus of furs or foods could deal with other individuals or tribes in need of such commodities. Specialized, systematic distribution began only with the arrival of white traders from Europe.

With their advent, America became dotted with trading posts at the head waters of navigable streams and at other strategic locations. Here the white man bartered with the Indians, exchanging awls, bells, bracelets, beads and other trinkets for valuable skins. Colonists of many nations participated in this early commerce, particularly the French, the English and the Dutch.

After the Revolutionary War, the American residents established a definite pre-eminence in trading. In bringing about this distinction, our Government, which favored local trade, played a principal role. In fact, the bitter struggle for supremacy in fur trading between the English and Americans largely influenced the War of 1812.

In time, the trading posts blossomed into white settlements. Lewis and Clark moved westward and opened up the Great Northwest territory for colonization. Hardy pioneers, braving every danger, followed their lead. Towns and villages sprang up everywhere. A new nation was being developed destined to span a continent.

The economic history of this period, like all history, is substantially a record of new, improved systems displacing old, outmoded ones. And so, in time, the store serving both the white settlers and the Indians supplanted the trading post as the predominant early American retailing establishment.

It should be said parenthetically here that peddlers, too, played a large part in providing merchandise for the countless, remote settlements in the western wilderness. The arrival of these canny tradesmen, coming to the new settlements in their picturesque wagons or carrying packs on their backs, was eagerly awaited by these pioneers. Hemmed-in and without adequate transportation facilities, these colonists eagerly anticipated the coming of the peddler with his gossip and his supply of ammunition, medicine, spectacles, horse liniment and other supplies.

THE EARLY GENERAL STORE

The onward march of America from pioneer life to economic maturity saw general merchandise stores develop sufficiently not only to compete with the peddler for the local trade but also to succeed, ultimately, in reducing his importance.

An early account of these pioneer stores describes them as "dingy, wooden structures, either with rough counters or no counters at all, which offered consumers every conceivable kind of merchandise from dry goods, hardware, chemical fireboxes and notions to such patent medicines as Steer's Opodildoc and Maccaboy and Cephalic snuff."

Many of these early stores kept their stocks of merchandise in locked boxes or chests which were opened only when customers called. Money of any kind was scarce and sales for cash were the exception. As had been the case in the old trading posts, all sorts of products were bartered.

During most of the Nineteenth Century, long-term credit was customary and settlements on accounts were usually made annually or, in special instances, semi-annually.

Show windows, counter-cards, advertising and branded packaged goods were unknown. The merchant's competition, if any, was on a friendly basis. Rarely did a salesman call upon him. He went to market once, perhaps twice a year, and bought his entire requirements for the ensuing period. He did not concern himself about the cost of distribution. A shrewd bargainer, he purchased as cheaply as possible and sold at as high a price as he could

get. In this day when caveat emptor reigned supreme in America, the trade "rule-of-thumb" was to levy on consumers what the traffic would bear.

Grandma, during this early American merchandising period, roasted the coffee and ground it herself. Cereals were cooked on a coal stove for two days until soft enough to eat. Soap couldn't be bought. Grandma saved wood ashes and grease drippings rendering them into a jelly-like mass which she called soap. For extracts, Grandma soaked vanilla bean, orange or lemon peels in brandy for months.

The only seafood obtainable during this era by inland consumers was salted, dried fish and pickled salt fish. The dried fish was eatable if soaked for a day and the water changed often. Meat had to be bought freshly killed. There were no refrigerators and ice was to be had only if the weather had been cold enough to freeze the neighboring ponds. It was only in 1885 that canned foods made their appearance on the grocers' shelves. Before then, Grandma had to spend hours preparing a single dish or a single meal.

We see, therefore, that the sparsity of population, the conditions of travel, the lack of facilities for transportation and communication, the condition of credit rating and collection facilities and the habits of the consumer continued to require a very definite system of distribution of merchandise which best suited the conditions and the requirements of the era. And the retailing system which functioned best under these early American circumstances was that which featured the routing of foodstuffs and merchandise from producer or manufacturer to wholesaler to retailer and, finally, to consumer.

SEEDS OF MODERN RETAILING

For several picturesque generations in American life, the general merchandise store served as a village social center. The old cannon stove, the rickety chair or two, the cracker barrel, the old sawdust spit-box were the universal furnishings that equipped it for its social service. While politics, religion — and neighbors — were discussed, the seeds of modern retailing were also being sown.

Sometimes the merchant resented the fact that his store was being used as a social center and advertised the loafers in the papers, as angry Grocer T. Will Yardstock did in the "Missouri Republican" in 1825 as follows:

"Mr. Printer — I am a storekeeper and am excessively annoyed by a set of troublesome animals, called loungers, who are in the daily habit of calling at my store, and there sitting hour after hour, poking their noses into my business, looking into my books whenever they happen to lie exposed to view, making impertinent inquiries about business which does not concern them, and ever and anon giving me a polite hint that a little grog would be acceptable. Do, Mr. Printer, give this an insertion; some of them

may see it and take the hint. If it should not, however, answer my purpose, I shall certainly be under the necessity of disposing of my goods the best way I can, shutting up my shop, mounting a Vide Poche Cart and crying 'Marche done' take myself off to some more favored country where I shall not be bored to death by loungers."

Already we see the striving for new methods — the discarding of old ones. These first retailing outlets were certainly crude affairs, if measured by modern standards but they were a tremendous improvement over what had preceded them and they, in turn, were to be improved upon, progressively and continuously.

PART II

The Golden Era of the Seller's Market

The period beginning in the fifties and stretching to the turn of the Twentieth Century was the golden era of the seller's market in America — the hey-day of the classic system of distribution from manufacturer to wholesaler to retailer to consumer.

This was the day of merchandise in bulk — of goods without names — manufacturers without trademarks — and consumers without safeguards.

Manufacturers during this period were intent merely upon producing goods. After they were produced, the manufacturer was totally subservient to the wholesaler. The retailer — dependent upon both — usually had enough merchandise for two or three years ahead. If the consumer had a voice at all during these early days of distribution, it was wan and weak and unheard.

Production at this early stage was merely an experiment, with emphasis on perfecting the machinery for increased output of merchandise.

RETAIL HISTORY IN THE MAKING

Due to lack of good roads, trading areas were naturally restricted. The telephone exhibition at the Philadelphia Centennial Exposition in 1876 was regarded important only as a demonstration of an interesting scientific novelty. The telegraph was not yet, of course, in universal use. Automobiles had still to make their appearance and traveling from cities and towns for any appreciable distance was a rare practice, indeed. It took four days and nights by the quickest passenger service, for instance, to reach New York from St. Louis. By present-day standards, trains were slower than the proverbial snail.

As result, the retailer of the day was a dominant figure in local activities. Jobber, wholesaler and retailer were independent, often antagonistic to each other, for each was anxious for as big a profit as possible.

Consumers had to depend entirely on the retailers and the business mortality of these individual retailers was unbelievably high.

The durable, highly-standardized retail store was yet to be born, but the increasing public insistence upon quality of merchandise and permanence and dependability of service already foreshadowed the strong retail corporation and its greatest expression, namely, the chain store.

PART III

The Advent of the Chain Store (1859 — 1900)

Modern chain store organizations began in the grocery field. Back in the year 1859, a little store opened its doors on Vesey Street, New York City.¹ This store was the original seed of a retailing system that was destined to reorganize our entire American distributive system, ultimately forcing the retailer who at this stage was in the habit of dipping pickles out of an open pail and chasing the cat from the cracker barrel, to adopt more scientific and less wasteful retailing methods.

This little Vesey Street store was opened by George F. Gilman, a New York hide and leather merchant, who became so convinced that American consumers were paying too many and too large profits on tea and coffee and who felt so confident that a store offering tea and coffee values would succeed greatly, that he abandoned hide and leather and set out in that Vesey Street enterprise in 1859 to give American consumers high quality tea and coffee at lower retail prices. By his side in this enterprise was George Huntington Hartford, formerly St. Louis representative of the Gilman hide and leather business.²

PYRAMIDED PROFITS CRUSH CONSUMER

It is interesting to note here, some of the tea profits with which American consumers were saddled at this point in our American history and

Note ¹ Though the statement that the Great Atlantic & Pacific Tea Company is the oldest existing modern American chain store system is entirely justified, it should be noted that the Bohemian-born step-brothers, Jacob and Joseph Stiner, were operating a chain of retail tea stores in New York City before George F. Gilman entered the field. Until 1875, the Stiner family were perhaps the largest chain store operators in New York. Their store on Vesey Street was but a short distance from the location later occupied by the Great American Tea Company. Although the Stiner business and its 11 stores survived until 1902, it was dissolved in March of that year. (*Reference Source: American Grocer*, Vol. 10, January 31, 1874, P. 245; *New York Journal of Commerce*, March 21, 1902, P. 1).

² When Gilman's St. Louis hide and leather business began to decrease, according to one story, young Hartford turned the second floor of the Gilman leather site into a successful tea, coffee and spice retail shop.

which prompted the transformation of the Gilman business from hide and leather to tea and coffee.³

Commencing with the Chinese or Japanese branches of American houses, and aside from the profits of Chinese and Japanese factors, we find, first, that the American branches in China or Japan made substantial profits on their tea sales or shipments. It is reported, in fact, that some of the richest retired merchants in this country made their immense fortunes during this period through the profits of their Chinese or Japanese branches.

The banker, moreover, made large profits upon the foreign exchange used in the purchase of teas; the importer's profit, too, was great.

On arrival in the United States, tea was sold by the cargo; the purchaser sold it to the so-called speculator in invoices of 1,000 to 2,000 packages at an average profit of about 10 percent. Next, the speculator sold to the wholesale tea dealer at a profit of 10 to 15 percent.

The wholesale tea dealer, in turn, sold it to the wholesale grocer in lots to suit his trade, at a profit of about 10 percent. The wholesale grocer then sold it to the retail dealer at a profit of 15 to 25 percent. And, finally, the retailer sold it to the consumer for all the profit he could get and the consumer, if he wanted tea, had to pay an almost prohibitive retail price on which eight separate and substantial profits and as many brokerages, cartages, storages, cooperages and wastes had been pyramided.

"We propose", the early Gilman-Hartford ads said, "to do away with all these various profits and brokerages, cartages, storages, cooperages and waste, with the exception of a small commission paid for purchasing to our correspondents in China and Japan, one cartage, and a small profit to ourselves which, on our large sales, will amply pay us.

"Parties getting their teas from us", these statements continued, "may confidently rely upon getting them pure and fresh, as they come direct from the custom house stores to our warehouses."

FIRST LINKS IN A CHAIN

Staunchly championing the purpose of giving consumers quality products at the lowest possible price, and fulfilling that objective through efficiency and ingenuity in a retail field in which the opposite, during this period, was more common, the first Gilman-Hartford retail enterprise, cradle of the Great American Tea Company by which name it ultimately became known, progressed notably.

Eventually, a second Gilman-Hartford unit was started — then a third — and so on until by 1865, the Great American Tea Company consisted of about 25 stores that were introducing American consumers to new economies and, therefore, to a higher standard of living.

*Note * Reference Source: Harper's Weekly, Vol. 10, October 27, 1866, P. 687.*

Advertising in religious weeklies and other leading media of the era that the Great American Tea Company was profitably eliminating seven or eight middlemen's profits in order to bring lower prices to housewives, Gilman and Hartford supported their claim by offering tea to consumers at thirty cents a pound that was being sold in competing establishments at about a dollar.

At about this time, furthermore, Gilman conceived his so-called "club plan" whereby housewives and others, by taking pooled tea orders from their friends and submitting them to the Great American Tea Company, received free tea for themselves. Through their advertisements of the "club plan" in *The Methodist*, *The Evangelist*, *Harper's Weekly*, *American Agriculturist* and similar popular journals, it was not, therefore, long before Gilman and Hartford succeeded in gaining for the Great American Tea Company a substantial mail-order business.

The popular stores of Gilman and Hartford were gaining great patronage; the Gilman-Hartford thirst for progress, however, was unquenchable. "We've reduced the cost of tea", they said, "why not apply the same expedients in order to reduce the retail price of other necessities of life?"

In due time, therefore, other grocery products appeared on the shelves of Great American Tea Company stores whose economical cost multiplied the purchasing power of consumers, thereby enabling them to buy more necessities, enjoy more luxuries and buy more from other American businesses to general American business benefit.⁴

Commenced as a modest, individually-owned enterprise, a great chain was evidently in the making because its concrete consumer service resulted in consumer favor expressed concretely in growing consumer patronage.

And so in the year 1869, when trains of the Union Pacific and of the Central Pacific met face-to-face at Promontory Point in the Rocky Mountains of Utah signaling the first transcontinental railroad in America, the Great American Tea Company gave birth to another company, the Great Atlantic & Pacific Tea Company. That birth represented another forward step towards the fulfillment of the Gilman-Hartford ambition to extend their retail values, services and conveniences more generally to the American people. And, in time, the A. & P. outgrew its parent in importance.

Note ⁴ By 1869, there were twice as many manufacturing establishments in America as there had been 10 years before. General cost of living had doubled; wages, however, had increased only half as much and workers found themselves suffering as a result. Despite unrestricted immigration, there was still labor shortage. Free land and cheap land still provided escape from the factories. The Homestead Act of 1861 sent a vast tide of migration from the cities of the East to the prairies of the West. In varying degrees, this tide continued to pour Westward for a quarter of a century.

Step-by-step, store-by-store, the expanding young chain was spreading its retail establishments in most of the larger cities east of the Mississippi River, in the early '70's, including Chicago, Cincinnati, Baltimore, Rochester, Buffalo, Cleveland and similar communities. It is said that the first Chicago store of the Great Atlantic & Pacific Tea Company brought one of the first grocery supplies to the fire-ridden city in 1871, and that to accommodate the hungry crowds, the rear wall of that pioneering A. & P. store had to be knocked out.

Moreover, Gilman and Hartford fathered several progressive promotional plans — unheard of plans in the early '70's. They began, for example, to give premiums consisting of glassware and crockery, to consumers who made a certain amount of purchases in their stores. As a result, premium clubs were formed by customers so that coupons might be pooled and more expensive premiums procured. These clubs proved popular and soon developed substantially.

SPLendor ON VESEY STREET

Meantime, the appearance of the Gilman-Hartford mother store — the Vesey Street enterprise wherein the Great American Tea Company was born — assumed increasing splendor. One account reports that tea was offered in red and gold bins conveniently lining the neat, well-arranged store. Cashiers' cages were built in the form of pagodas. A cockatoo on a stand in the center of the main floor watched streams of customers making their daily purchases and, on Saturday night, a band played. Outside, the store was painted in Chinese vermilion and gold leaf. A huge capital T proclaimed the store as a part of the Tea Company family and red, white and blue globes lining the windows blazed the red and gold interior magnificence of a business that was doing much to revolutionize American retailing to the consumer's benefit.

Apparently, the same red and gold splendor was being applied by Gilman and Hartford to each new store, as opened, for a Baltimore paper in the early '70's, according to one account, said this of the new store there . . . "with its elegant wallpapers with gilt edges representing scenes in China . . . gorgeous chandeliers . . . over three hundred variegated lights around the front windows . . . a scene at night more resembling the fairy palaces we read of in the Arabian Nights than the business establishments one generally sees in this section."

No wonder that customers flocked into the novel A. & P. stores, especially since the company's pioneering low-price policy was eliminating profiteering from retailing and passing the savings on to American consumers through lower retail prices on products offered in stores that were a far cry from the "dingy, wooden structures, either with rough counters or no counters at all, which offered consumers every conceivable kind of merchandise from dry goods, hardware, chemical fireboxes and notions to such patent medicines as Steer's Opodildoc and Maccaboy and Cephalic snuff" accounted on Page 54.

On April 15, 1878, about nineteen years after opening the little Vesey Street, New York store, Gilman retired and the Great Atlantic & Pacific Tea Company came under the administration of the family which has since been symbolic of its farflung store operations. On that date, George Huntington Hartford, who, by Gilman's side, had helped build the Great American and the Great Atlantic & Pacific Tea Companies from their single store beginnings, obtained their exclusive management and control. Gilman, thereafter, lived the life of a country gentleman until his death at Black Rock, Connecticut on March 3, 1901 — the day before President McKinley's second inauguration.

A & P: THEN AND NOW

It is interesting to note that at Mr. Gilman's death, 42 years after the opening of the little Vesey Street store that has played such a significant role in revolutionizing the American field of retail distribution and in stimulating the merchandising progress that has provided present-day America with the best retailing system in the world, The Great Atlantic & Pacific Tea Company operated nearly 200 stores in 28 states over a quarter of which were located in New York State. It is said that in that year, 1,800 Americans were employed by the company and that the A. & P. expended the then-astonishing yearly sum of \$445,000 in rentals for property which it leased.

These were the modest but proud beginnings of the Great Atlantic & Pacific Tea Company which today operates 12,000 units, coast-to-coast, employs about 90,000 Americans and whose popular stores have so vitally benefitted America's consuming millions.

THE BIRTH OF GRAND-UNION

The next major chain store organization to see light of day was the Jones Brothers Tea Co. The first Jones store was opened in 1872, the year that A. Montgomery Ward and George R. Thorne established the first mail-order houses in the United States. Following the Gilman-Hartford philosophy of concentrating on bringing necessities of life to consumers at the most economical prices possible, the Jones store so thoroughly fulfilled this purpose by the practice of efficient operating methods in a retail field where the opposite was, during this era, more common, that it prospered exceedingly.

(*Ed Note:* The origin of the Roos Bros. chain of nine California stores is closely identified with one of the most fantastic periods in the entirely fantastic pageant which makes up the history of San Francisco (Women's Wear Daily, September 29, 1939). Founded in 1865 by Adolphe Roos with the aid of his brother Achille, the first Roos shop in Virginia City (California) catered to the apparel needs of men attracted to that mining center where, for four years, it was located. In 1928, after a period of California retail service spanning 63 years, the business became a public corporation and Colonel Robert A. Roos, youngest of three sons of the founder took the helm as president., the position that he still occupies. By that time, the organization had developed into a chain of eight stores, all in California, now carrying women's wear as well as men's wear.)

Seeds of Modern Chain Stores



Sire of Great Atlantic and Pacific Tea Co., and of existing modern American chain stores.



First successful Woolworth store, Lancaster, Pa., 1879.



Early Woolworth store, probably one at Harrisburg, Pa.



Jones Brothers Tea Co.—now Grand Union—takes the road.

In fact, this pioneer chain store establishment became so firmly entrenched in the favor of the community within one year of its origin, that though the nation went through a serious financial panic in 1873 during which an army of retailers failed, it survived, expanded store-by-store, and wagon route-on-wagon route, and ultimately became a well-known chain.

In 1928 — fifty-six years after birth — the Jones Brothers Tea Co. became the Grand-Union Co., under which banner it has since operated its 500 or more stores.

WOOLWORTH CAPITALIZES AN IDEA

In the year of business depression following the Civil War, 27-year-old Frank Winfield Woolworth, an eight-dollar-a-week clerk in the Watertown, N. Y. store of Sturges and Moore, asked permission of his employer to collect a group of miscellaneous articles — notions of all kinds which for months and months had failed to sell — and to place them on one counter for sale at a nickel each. From the start, this idea was successful, for the women quickly took advantage of the bargains offered — bargains shown in open display in an era when merchandise was largely concealed and when strong arm selling methods were a la mode — and substantially patronized Mr. Woolworth's nickel counter.

Encouraged by the success of this Watertown test and confident of the value of his idea, Mr. Woolworth negotiated a small loan from his employer and with it opened a store of his own in Utica, N. Y. Though "one price stores" had existed in America prior to Mr. Woolworth's Utica venture, notably in so-called 99c stores, that Utica establishment is generally recognized as the first five-cent store in America. It failed.

GENESIS OF "FIVE AND TENS"

Undaunted, Woolworth sold his Utica stock for what he could raise and, in June 1879, started again in Lancaster, Pennsylvania. Thirty percent of his merchandise stock was sold the first day.

After fighting a see-saw battle for the survival of the enterprise that he had fathered and for the practical justification of the operating methods that he was pioneering, Mr. Woolworth finally made sufficient headway in Lancaster to warrant the opening of a second store in Harrisburg, in partnership with his younger brother.⁵

By 1883, the growing Woolworth Company — originated as one-price, "five-cent" stores regardless of the fact that nickels were not yet

⁵ *Note* — Namely, Charles Sumner Woolworth, present Chairman of the Board of the F. W. Woolworth Company and himself a variety store pioneer. The stores that C. S. Woolworth fathered were merged with those of his older brother and with those of other so-called Woolworth partners into the present F. W. Woolworth Company in 1912. (See Note 6, Page 65.)

generally in circulation and "shin plasters" or fractional currency were then widely in use in the United States — increased the price range of its merchandise to 10¢ thereby originating the familiar term "five and tens" by which variety stores are still known throughout America.

This was the humble start of the F. W. Woolworth Company and of variety stores in America.

MULTIPLYING CONSUMER BUYING POWER

In these early '80's, America was passing through a new period of inventions in which the development of small conveniences and necessities of the home were playing a major role. Comforts which had been unknown a generation ago were, during these early '80's, introducing a new era in housekeeping.

Woolworth had raised his limit to 10¢ not because of any faith lost in his "five-cent" store idea, but because not enough articles could be found to sell at five cents — at least not enough to satisfy the vaulting ambitions of the young merchant. Handling ten-cent items enabled him to offer a much wider and more appealing range of goods to the consumers of the '80's.

Even after ten-cent articles were added to Woolworth stock, purchasing for Woolworth stores continued, however, to be a major problem. A solid wall of custom and prejudice confronted the young "five and ten" merchant. The manufacturer would almost invariably protect the jobber; he scorned the buying power of the retailer and would negotiate no business with him, directly. The jobber was a dominant figure and that dominance was reflected in the staggeringly high retail prices of the '80's. Eventually, however, even this problem was to be surmounted.

Woolworth was positive that if he could offer producers a large enough market, "five and ten" cent stores could snatch comforts and household conveniences out of the luxury class and transfer them into the homes of the millions of American consumers who could afford them only at "five and ten" prices. This became his goal.

In time, manufacturers who could not afford to make ten-cent items for two or three Woolworth stores found the proposition of providing merchandise to sell at 10¢ highly attractive as soon as the number of Woolworth stores had grown to twenty or thirty. Hence, Woolworth's difficulty of getting goods diminished and ultimately disappeared.

And in reaching his goal, Mr. Woolworth had the satisfaction of showing numerous manufacturers how the large scale selling system that marked Woolworth operation made it possible for them to engage in mass production to the benefit of America and Americans. He demonstrated that mass production reduced manufacturing costs.

Accordingly, articles that had previously retailed for fifty or seventy-five cents when made in small quantities were, in this era, turned out in

thousands of gross to sell for 10c. By making available to the many, wanted items that had formerly been the privilege of the few, the standard of living of America was being lifted by the imagination, the organization and the mercantile courage of a man who would not be impeded by custom or by tradition.

CONSUMERS GUIDE WOOLWORTH GROWTH

In an American business era when the rule of caveat emptor prevailed in the retail world, Woolworth adopted the company policy, furthermore, of being governed in all respects by the wishes of the people who patronized his stores. He would handle any goods, within his price range, that the public would buy. He let his customers decide in which direction he would expand his stock.

He recognized sixty years ago the principle of consumer acceptance and let it guide him in the building of his great enterprise. Simple and obvious as that idea seems today, it was a new conception when the Woolworth chain was started back in 1879.

Mr. Woolworth went even further. He sought patronage of the young and the old, male and female. He was perhaps the first merchant, for example, to cater systematically to children. The toy business done in Woolworth stores has been noteworthy since company origin. Special merchandise for the seasons and holidays — Valentine's Day, St. Patrick's Day, Easter, Fourth of July, etc. — has been a feature of Woolworth stores almost from the beginning.

And what is even more remarkable, Woolworth stores, through the years, have enjoyed and still enjoy a well-proportioned patronage from all members of the family.

Though Woolworth stores, because they multiplied the buying power of nickels and dimes became popular and in much community demand, Mr. Woolworth insisted, from the start, upon gradual progress. He believed in learning to walk before he tried to run. He did not open a second store until he had made a success of the first. Neither he nor his associates believed in spurts. Expansion was invariably financed out of earnings. The opening of stores in big lots was contrary to Woolworth policy.⁶

Yet, step by step, decade by decade, more and more of the familiar red and gold fronts of the Woolworth "five and ten-cent stores" began to

*Note*⁶ The only exception that was ever made to Mr. Woolworth's cautious policy of expansion was in 1912 when there was a merger of F. W. Woolworth & Co., S. H. Knox & Co., F. M. Kirby & Co., E. P. Charlton & Co., C. S. Woolworth and W. H. Moore. The founders of these companies were all old friends of Mr. Woolworth. Most of them went into the five-and-ten-cent business on his recommendation — some even in partnership with him. It was but natural, therefore, that they should eventually consolidate into a merged company headed by Frank Winfield Woolworth.

dot the country, as the nickels and dimes of American consumers were thereby given greater and greater buying power.

Today, Woolworth is an international institution. The name "Woolworth" is a household word, both in America and in England, Canada, Germany and Cuba.

CHAIN STORE PIONEERS, ALL

It was only shortly after the tall, young Mr. Woolworth who, without hesitation, could tell the difference between dress linings and gingham had demonstrated the soundness of the variety store idea, that a group of other far-seeing Pennsylvanians — Kresge, Kress, McCrory, Knox, Charlton, Kirby — saw its possibilities, adopted, refined and capitalized on it and pioneered variety store institutions of their own that ultimately revolutionized American retailing and substantially advanced the standard of living of American consumers and of American communities.

"McCRORY" STARTS AND GROWS

Among the earliest of these hardy variety store pioneers was J. G. McCrory who, with deep-rooted conviction that a store offering good merchandise at fixed limits of 5c and 10c would well-serve consumers and would succeed, and with \$350 saved and \$200 borrowed with which to fulfill that conviction, opened a store similar to Mr. Woolworth's in Scottdale, Pennsylvania in 1881.

Mr. McCrory operated his store so successfully regardless of the discouragements that confronted him in battling the customs and prejudices of that era in American retailing, that it prospered, grew, and foreshadowed the strong McCrory Stores Corporation of 1939.

Fifty-eight years ago, J. C. McCrory had a vision — a vision of service to the people in the community in which he lived. He was going to open a little store and there he was going to sell good wares at 5c and 10c. He was going to devote every effort to retailing the finest merchandise that nickels and dimes could buy. This was his dream.

And out of that dream, he built a business which from an original investment of \$550 in his first store, today operates 202 well-known McCrory stores dotting 22 states in America. From a company that employed but two people in its modest beginning, consumer nickels and dimes have built the McCrory Company to an organization that in 1939 America, employs 10,000 local men and women.

THE BIRTH OF KRESGE

Out near Allentown, Pennsylvania, there is a monument commemorating the massacre by Indians of a hardy family of early Pennsylvania settlers named Kresge. From such stock, and with the same grim deter-

mination to hurdle life's obstacles, sprang Sebastian S. Kresge who was destined to found and develop a variety store organization that ultimately would make his name a household word for ample variety of well-selected, economical merchandise offered in attractive, efficiently-operated stores throughout a substantial portion of the United States.

At the age of twenty-one, Kresge left the farm. After unsuccessful attempts to progress in the wholesale produce business; as an insurance salesman; as a canvasser for an installment house; as bookkeeper and, finally, as half-owner of a bakery, opportunity finally knocked through J. G. McCrory and his "five and ten" business.

Fascinated by the "five and ten" idea, Kresge joined McCrory in 1897 and was assigned to the Jamestown, N. Y. store. Two weeks later, however, he left Jamestown, journeyed to Memphis, Tennessee and there opened a "five and ten" cent store in partnership with Mr. McCrory.

In time, Mr. McCrory and Mr. Kresge opened another store on a partnership basis, this time in Detroit.

Two years later, Mr. Kresge traded his interest in the Memphis store for Mr. McCrory's interest in the Detroit store. Now his own, Mr. Kresge proceeded to build that Detroit store, step by step, store by store, into the present S. S. Kresge Company, whose "red" front and "green" front units serve present-day Americans in nearly 700 different locations in the United States and Canada.

MEMPHIS: CRADLE OF KRESS

Turn to the company built by Samuel Henry Kress and again the story must commence in the Commonwealth of Pennsylvania.

In Cherryville, in that state, S. H. Kress was born in 1863, son of John Franklin Kress and Margaret Dodson, both of old American stock.

While attending public school in his native town, Mr. Kress worked after school hours to help support himself by selling newspapers, clerking in a clothing store and even laboring in stone and slate quarries. Busy as he was with the task of earning a living, he found time to continue his personal reading and study. By the time he was 17 years of age, therefore, he was able to pass the examination qualifying him to teach school.

After seven unprofitable teaching years, S. H. Kress turned to business, in 1887, in search for progress. And the small Nanticoke, Pennsylvania stationery and novelty store that he had purchased became so profitable within three years, that he branched out into Wilkes Barre.

Inspired by the success of Woolworth and of those pioneers who followed Woolworth into the limited price variety store business, S. H. Kress, in 1896, closed his stationery and wholesale notions businesses and journeyed to Memphis, Tennessee with much of the stationery and notions stock of his Pennsylvania enterprises. There with his brother, Claude Washington Kress, he opened a "five and ten." It prospered greatly.

Pioneering Chain Stores



Seeds of the G. R. Kinney Co. Its first store. 1894.



McCrory opens fourth store, Richmond, Va., 1905.



J. C. Penney at work in his first store.



Kroger Grocery & Baking Company's 18th store, Cincinnati.



One of the earliest S. H. Kress stores, Birmingham, Ala.

This mother store was, in time, followed by another Kress unit, and another, and still more as increased public demand for Kress values, services and conveniences brought Kress expansion in its wake. Within four years after the opening of his Memphis unit, therefore, Mr. Kress was operating 12 stores in the South. With the turn of the century, Kress headquarters was moved to New York.

S. H. Kress & Co., in 1939, operates 240 stores in 29 states and in the Territory of Hawaii. Though greatest Kress concentration is still in the South and in the Southeast, Kress branches at Northern points, and even on the West Coast, are abundant.⁷

SHOE RETAILING GETS ITS START

In the early day of American distribution, cobblers, storekeepers and even consumers, themselves tanned the hide and made the family's boots. The bootmaker of this era was an itinerant craftsman. Once, perhaps twice a year, he appeared at the home of a patron carrying his folding bench and was made welcome. He remained a week or so making up a year's supply of boots and shoes for the entire family from the family's home-tanned hides. A parting handshake, an "au revoir" and off he then went to keep a similar engagement elsewhere but to return again ten months or a year later.

As time elapsed, we find friend bootmaker no longer itinerant; his visits less often made. Ultimately, he installed himself in a little shop of his own downtown. Here he made footwear to measure or at least to order. The family now came to him. And, finally, when the Lynns and the Brocktons of the United States developed shoe factories and introduced factory-made shoes to America, our friend bootmaker sold the factory-made product but retained his craftsmanship by repairing shoes.

Only after the advent of the chain store was shoe retailing placed on a scientific basis. The first of these companies was Hanan and Son, which started in 1885 and gave impetus to the chain store system which in time revolutionized shoe retailing in America.

And only a few short years after the origin of Hanan and Son, Frank Melville, Jr. assumed control of two retail shoe stores in New York. So efficiently and so profitably did he operate these early stores that they became the forerunners of the present great chain of Thom McAn, John Ward and Frank Tod shoe stores that in our America of 1939 are operated

Note ⁷ President of S. H. Kress & Co. is still Samuel Henry Kress. It is noteworthy, moreover, that the Samuel H. Kress collection of Italian art, called one of the finest of its sort in the world, was given by Mr. Kress in 1939 to the National Gallery of Art. The Kress gift consists of 375 paintings and 18 pieces of sculpture, the former representing virtually all the important masters of the Italian school, from the Thirteenth to the Eighteenth Centuries, including Corregio; Giovanni Bellini; Giorgione; Titian; Paolo Veronese and many others.

under the banner of the well-known Melville Shoe Corporation by Ward Melville, son of the founder.

THE INCEPTION OF "KROGER"

At the age of thirteen, Bernard Henry Kroger became self-supporting. The fourth child in a family of eight that had been supported by a small Cincinnati general store that had to be sold by his parents in the depression of 1873, Kroger, at that early age set out to make his livelihood and his fortune.

There followed a period of seven day-and-evening-per-week clerking in a local drug store for Mr. Kroger — and a year and a half spent at work on a near-by farm. Finally, he made the change that found him in the grocery business employed as a house-to-house canvasser for a small grocery store in Cincinnati. He took orders on one day; on the next, with horse and buggy, he delivered them.

The wages of incompetence, however, finally caught up with the owners of the store. Their original capital of \$3,500 dwindled to \$600. Closing, therefore, seemed inevitable.

Mr. Kroger believed he could make the store pay and so insisted to his employers. He convinced them. Accordingly he was permitted to act as store manager. It was made clear to him by his employers, however, that if the remaining \$600 were lost, the store would be closed.

Whereas the two partners, through their management, had lost \$2,900 of their original investment, yet Kroger made \$3,100 net profit in his first eleven months as manager. Despite this, no partnership or earned progress seemed in sight. In 1882, at the age of twenty-two, therefore, he opened a modest store of his own, giving it the impressive name Great Western Tea Company, later to become the Kroger Grocery & Baking Company.

KROGER THEN AND NOW

Despite the loss of his newly-acquired horse and delivery wagon when horse and wagon collided with a fast-moving train, and notwithstanding the disaster of an Ohio flood, Kroger's Great Western Tea Company showed a profit the first year. Thereafter, it prospered.

In time, Great Western added a second store; then a third. It continued to progress until in 1902, twenty years after origin, it was incorporated in Ohio under the name of, The Kroger Grocery & Baking Company.

Twenty years after the opening of his modest first store with the impressive Great Western Tea Company name, therefore, Kroger, called a "crank" because of his persistence in giving customers the most efficient service possible, found himself as president of a company operating about

40 stores and enjoying a yearly volume of over one and three-quarter million dollars.

Today, Kroger is the second largest chain grocery store company in the world in point of number of stores in operation. From Ohio, its home state, alone, it annually buys \$2,386,000 worth of butter, eggs and milk; \$3,390,000 in canned and fresh fruits and vegetables; \$6,000,000 in Ohio meat. It purchases \$2,713,000 worth of Ohio soap annually and sells it in 19 states.

Today, in Ohio alone, Kroger spends \$11,202,000 in wages to Ohio employees; \$1,181,000 in rent to Ohio property owners; and \$1,425,000 in Ohio to Ohio businesses for services such as light, heat, repairs, etc.

AMERICA'S CONSUMERS GET MORE CHAINS

Other well-known chains date their existence from these early pioneer days. Some of the most outstanding are James Butler Grocery Co., founded in 1882; the Read Drug and Chemical Co., born about 1885; the Acme Tea Co. (now merged with American Stores Co.), in 1887; H. C. Bohack Co., in 1887; John R. Thompson Co., in 1891; the Whipple Bros. Co., in 1894; the Ginter Co. (now the First National Stores, Inc.), in 1895; J. W. Crooks Stores Co. (now merged with the American Stores Co.), in 1886; Childs (restaurants), in 1889; Cunningham Drug Stores (formerly the Economical-Cunningham Drug Stores) and the Florsheim Shoe Company in 1892; the G. R. Kinney Company (shoes), in 1894; Jewel Tea Co., in 1899; and the National Tea Co., formed just prior to the turn of the Twentieth Century.

The significant point to remember in connection with the advent and growth of these companies is that in a maze of inefficient and quick-passing individual retailing outlets, these stores succeeded because they were following up-to-date, scientific merchandising methods and were concentrating on bringing new values, new services, new conveniences to American consumers.

Their great contribution to merchandising practice in Nineteenth Century America was the elimination of distributive waste. Overhead was reduced to the lowest extent consistent with sound policy; delivery was eliminated and no credit was extended. Even in this early period of their development, because of their economical prices, they were the stores substantially patronized by those American multitudes with limited incomes.

Chain stores were the answer to the widespread need for economy and efficiency in retail distribution, just as the department store met a demand for convenience, for a rich variety of merchandise choice and for such extra services as charge accounts, free delivery, goods sent on approval, and similar considerations.

All of these companies were created by individual retailers who started with limited capital, *with one store*. Through skillful management

and advanced merchandising practices, they were able to offer well-selected and fresh stocks of reliable merchandise at lower retail prices. Consumers liked the values, services and conveniences of these stores and made them successful through steady patronage. In the circumstance, store expansion was inevitable. Step-by-step, the independent owners enlarged their businesses until chains of units resulted. That's how modern chain stores began in America and how they grew to their present stature.

The capital for the added stores came from within the respective organizations themselves. In analyzing the success of the chain store institutions of today, we must recognize that, in every case, the expansion came from within the companies themselves and that the financing was not based upon stock issues. Here lies the secret of the great financial strength of many of our present chain organizations.

PART IV

The Period of Chain Store Development (1900 — 1914)

During the period from 1900 to the close of the World War, the American nation witnessed startling industrial and social changes which made fertile soil for the increased success of the chain store.

By 1900, America had a total railroad mileage of 193,346 miles — a far cry from that day in 1869 when the gold spike was driven at Promontory Point, in the Rocky Mountains in Utah, signaling the first transcontinental railroad. This opened the way for large scale industry in the modern manner. Markets were now national. The Machine Age had begun.

In this period, the effects of the Industrial Revolution had definitely unfurled themselves and everywhere labor-saving machines were being installed — to the advantage of production. These machines which the engineers had been developing for twenty-five years were making their first records in mass production, not very impressive records if judged by present-day standards, to be sure, but ample enough to direct the problem from one of producing goods in bulk to that of selling them "en masse."⁸

America, too, had grown tremendously. Immigration had swelled the population by leaps and bounds and foreign classes became concentrated in our bigger towns and cities.

Note ⁸ Pittsburgh, as an illustration, had 90,000 people in 1878, was turning out 50,000 tons of steel, \$3,000,000 worth of copper, \$11,000,000 worth of glass a year; had 150 factories making tools and agricultural machinery. By 1886, better steel was being produced in Pittsburgh, in larger quantity, for \$31 a ton less than that which had cost \$168 a ton twenty years before. Freight rates had dropped correspondingly but living costs were high, wages low.

Roads had been developed, great strides had been made in transportation, and the automobile came into general use, thus bringing the people of the farm and small towns to the larger cities. A greater portion of the public, consequently, began to do its trading in the larger cities than ever before.

LIAISON BETWEEN PRODUCERS AND CONSUMERS

With more mouths to feed, more bodies to clothe and more feet to be shod, our manufacturers and producers were compelled to increase their production schedules substantially. Their new power machines were able to produce a huge output, but an effective liaison was necessary between the producer and the consumer. The acute problem of the manufacturer was effectively, economically, to reach the buyer.

It was during this period that national periodicals with widespread popular appeal were commencing to make appearance and newspapers to increase their circulations greatly, thereby introducing a new field of advertising into the scheme of retail distribution.

Rural free delivery of the mail was likewise presented to America during this period resulting in the substantial progress of mail-order selling. Accordingly, Sears, Roebuck and Montgomery Ward, and their mail-order catalogues, soon became household words in America.

Though comparatively adolescent, chain stores, in these circumstances, stepped squarely into the breach in order effectively to aid manufacturers to unload their packed shelves and warehouses. Single store merchants were far more numerous, to be sure, but chain stores — growing, flexible organizations, unmistakably gaining in momentum — were already making their presence felt in the field of American retail distribution.

Offering standout economies, chain stores were steadily increasing their sales and their stature. Efficiency in organization was the enabling cause underlying this ability to offer reliable merchandise at lower prices. It was their concentration on effective distributive methods that permitted them to expand the buying power of the consumer's dollar thereby contributing greatly to a higher American standard of living.

PENNEY STARTS AT KEMMERER

Among the important chain store companies originated during this period of chain store development in the United States was the J. C. Penney Co., founded in Kemmerer, Wyo., in 1902 by James Cash Penney, whose devotion to the Golden Rule principle extended even to the operation of his general merchandise store.

J. C. Penney was born on a farm near Hamilton, Mo. His father was an old-time Baptist minister of the sect that did not believe in pay for its ministers. The elder Penney scratched out a meager living on his farm,

preached on Sundays and ministered to the people of his parish as best he could.

It was a hard life, dominated by hard work, and young Penney's first job did not ease the situation noticeably. He started clerking in a local dry goods store for the then-princely sum of \$2.27 a month!

During the second year of his business career, young Mr. Penney earned \$200, but before he had launched upon the third year, his doctor ordered him to go West for his health.

After many ups and downs and an incredible amount of hard work, young Penney, in 1902, became the manager and one of three partners of the so-called "Golden Rule", a 25 by 45 foot dry goods store in the frontier camp of Kemmerer, Wyoming. The establishment's initial capital was \$6,000; for one-third interest, Penney paid \$500. His partners ultimately sold their interests in the "Golden Rule" to Mr. Penney, however, and went their separate ways leaving the young merchant to build that Kemmerer establishment into the great J. C. Penney Company of 1939. But that lies ahead!

The hard-bitten plainsmen and their families soon discovered that young Penney was absolutely "square" and that the "Golden Rule" kept a good stock of all the things they needed. They came to see that although they did have to pay cash for everything they bought from him, they were getting full value for their money. The same held true wherever Penney expanded as he did not long after the Kemmerer store's achievements justified the opening of companion units.

The early years of the company witnessed a slow but steady growth. Penney stores were first opened in the Southwest; later they opened further West; still later they headed South and East. Today, the J. C. Penney Company operates over 1,500 stores and Penney stores are to be found in every state of the Union.

MANAGERS MADE PENNEY PARTNERS

Observers attribute much of the Penney Company's success to its close adherence to the following fundamental principles which were adopted by Mr. Penney from the outset of his venture in 1902 and which have dominated Penney Company operation through the years.

1. An unusual degree of responsibility for individual managers.
2. Careful and extended training of managers and associates.
3. A profit sharing plan that permits each manager to become a partner in the business.
4. A careful control of operating costs in order to pack unusual value into the customer's dollar.
5. Maintenance of quality merchandise standards and the exclusion from stores of "seconds" and sub-standard merchandise.

6. The policy of buying and selling for cash only.
7. Participation in the life of each community and the establishment of each store as a local business enterprise.

The J. C. Penney Company has prospered greatly because it has met worthily the needs of millions of customers. Its fundamental principles of operation have been proved right and have influenced, soundly, the efforts of thousands of interested men and women in the field of retail distribution.

NEW ENGLANDER FOUNDS GRANT

On a December day in 1906, six years after the turn of the Twentieth Century, William Thomas Grant opened his first store in the Y. M. C. A. building in Lynn, Massachusetts. It was a small store devoted to merchandise selling for retail prices from one cent to twenty-five cents.

Mr. Grant had no idea on that opening day that the venture that he was starting "on a shoe string" would some day span the continent.

Mr. Grant had some decidedly progressive ideas in merchandising that he wanted to put into practice. His store represented his answer to the two questions that had occupied his mind for many months, namely . . . "Why not a store devoted entirely to rapidly-selling, low-investment items, with resulting increased profit?" . . . and, secondly "Why not share these profits with the customer?"

The first Grant store succeeded. The success of this store led to expansion. Soon, Waterbury, Bridgeport, Lewiston and other cities had "W. T. Grant" stores. During the World War, retail price lines above twenty-five cents were added to the merchandise stocks.

Today, the W. T. Grant Company operates nearly 500 stores scattered far and wide throughout America. Grant stores are not only located in the shopping center of the larger cities, but, through neighborhood stores, have brought economy and convenience in shopping to the smaller communities.

WHELAN ORIGINATES UNITED CIGAR

In 1901, a young man named George Whelan opened the first unit of the United Cigar Company of America and gave the cigar store Indian the first push that was to send him out of the picture.

From single-store beginnings, like all the others, Mr. Whelan not only successfully developed an entirely new type of cigar store, but brought to that store, standardized merchandise and a businesslike appearance that made consumer popularity inevitable.

As new United Cigar sites became more frequently needed, Mr. Whelan became increasingly aware of the desirability of establishing rigid standards for the selection of new sites that would ensure profitable new stores, once opened. Out of this conviction came fulfillment and from the

Heritage of Chain Stores



First store of W. T. Grant, Lynn, Mass., 1906.



Early Freeman store—forerunner of Scott-Burr Stores Corp.



New Redwood, Minn., railroad station where young station agent Richard Sears first started selling watches by mail in 1886.



An early McLellan unit, Abbeville, S. C.



Safeway's first unit and its founder at left.

adoption by the United Cigar Company of strict standards for the selection of new sites, including the clocking of prospective locations, came widespread adoption of stricter site standards by other merchants. Today, rigid standards for the selection of store sites and clocking the number of pedestrians passing prospective locations at various hours of the day is practically general policy and practice both among chains and among efficient independents.

United Cigar Company units were so well patronized and fulfilled such a need that by 1914, a little more than a decade after its birth, the company operated 1,000 stores and enjoyed the distinction of being, at that time, the largest chain store company in the world.

WALGREEN TRANSFORMS DRUG STORES

The well-known Walgreen Company was founded in 1906 by Charles R. Walgreen, of whom this has been said: "He found drug store windows largely empty except for garish globes of gaudy liquids and transformed them into joyous displays filled with many things; he found drug stores dingy places in a drab era of unwashed golden oak, with sad and little-washed wooden floors and put tile and mirror and glass plate in them. He changed the habits of working girls of the nation by transforming the soda fountain into a bright and popular luncheonette; he, with other chain drug store pioneers, modernized the drug stores of America by the examples that they set in business practice."

Other companies that were born during this era — all originated as well-liked individually-owned stores — were the Liggett Drug Co., in 1907, the Western Auto Supply Co., in 1909, and the Piggly-Wiggly Corp., started by Clarence Saunders in 1916.

BIRTH OF G. C. MURPHY

Another great chain store institution, the G. C. Murphy Co., had its origin during the pre-World War period. Starting as a single store in McKeesport, Pa. in 1906, the Murphy Company, founded by the nephew of Sarah Ellen Murphy and developed by John S. Mack, formerly a close associate of J. G. McCrory, expanded, store-by-store, as it continued to demonstrate real service to the public. McKeesport is still the seat of the executive operations of the Murphy Co.

Here, too, the company presently maintains a modern, completely-equipped Bureau of Standards or testing laboratory. The Bureau is manned by capable and experienced scientists whose duty it is to see that the standards of quality of merchandise sold in Murphy stores remain consistently high. Rigid and exacting tests are made, for instance, to determine the wearing quality of various articles of apparel; the finest grade of silk hosiery obtainable at a certain price; the purity of candy, and, in general, the quality of all Murphy merchandise.

Today, Murphy operates 203 units in 13 states and employs over 10,000 men and women, whereas in 1906, the lone Murphy store then in operation was staffed with five employees. To those 10,000 persons who work for the company, Murphy's is a "friendly firm," with a liberal and progressive labor policy.

NEWBERRY ORIGINATES IN PENNSYLVANIA

After 12 years of service with S. H. Kress & Co., J. J. Newberry decided, in 1912, to open a store of his own and did so, in that year, in Stroudsburg, Pa. That store was the original seed of the present J. J. Newberry Co. which at this writing operates 476 "five and tens" in 46 states.

In its first year of existence, the Stroudsburg unit turned in a business of \$32,382. From then onward, the J. J. Newberry Company expanded store-by-store, each year recording advancing sales as a result of ever-increasing consumer popularity.

Through 1937, the Newberry Company — still headed by the founder as President, and, until his death on November 10, 1939, by his brother C. T. Newberry as Chairman of the Board — never failed to register an increase over its sales volume of the previous year. Only in 1938, during the general business decline which shaved the sales volume of the entire variety store industry, did Newberry's sales retreat in 27 years of great consumer service.

In his second year of business, Mr. Newberry added a branch in Freeland, Pennsylvania; three years later Newberry units were opened in Lansford and Shamokin, Pennsylvania and in Rumford, Maine. By the end of the Newberry Company's first decade of life, its sales had passed the million dollar mark and its stores had expanded to 26 units.

During 1937, with 469 stores manned by over 17,000 full and part-time employees, Newberry's volume soared to \$50,315,000 which is a far cry from the \$32,382 sales that Mr. Newberry's mother store had enjoyed in Stroudsburg 25 years previously.

Consider the vision, the enterprise and the determination that carried J. J. Newberry from a modest single store owner in Eastern Pennsylvania to the presidency of a nationally-known company, operating from the East coast of the United States to the West, from the Far South to the North — a company which in its first 27 years of life, failed only once to increase its previous years sales to consumers.

AMERICA GETS SAFEWAY

Following two hard, bitter years as a well-driller in Idaho, Marion Skaggs finally had \$2,000. Accordingly, he quit well-drilling and, in 1915, invested most of those dollars in a small frame grocery store in American Falls, Idaho.

Here's how Mr. Skaggs, in the October 23, 1936 issue of *Family Circle* described his entrance into retailing:

"It was my father, not I, who established our first store. He was a man who was interested, above all else, in what he could do for other people. When he came to American Falls, he could see that the people of that community were actually suffering from the lack of a good retailing service. They were poor people, mostly grain farmers, who got their money once a year. They depended on the storekeeper for credit, and he in turn had to be carried by his sources of supply. They paid exorbitantly for their credit and for the credit losses that were involved. The prices on merchandise were high; quality and convenience were practically non-existent. My father's experienced eye saw how he could serve these people best — by being a good merchant, selling for cash, and making savings for his customers. He built his store. He put up the building with his own hands, and he started out with a total investment of one thousand dollars, half of which he borrowed from my slender accumulation.

"I put in several months grubbing sage-brush on my own homestead and digging wells for other settlers, but I was looking ahead to the day when I could start my own store in some promising little city. Finally, in August, I had stood being away from the counter as long as I could. In the meantime, my father had succeeded in giving the community a better and cheaper retail service, and, having accomplished his purpose, was willing to sell out. I paid him one thousand and eighty-eight dollars, and on August 15, 1915, the store was mine."

The Skaggs' store was a "hole-in-the-wall" grocery store, to be sure, but one that was alert and well-operated. Winter nights, Skaggs or his clerk had to sit up to keep the fire burning else the stocks of foodstuffs would freeze.

From this single, small-town enterprise grew Safeway Stores, Inc., which today, from the viewpoint of number of stores operated, is runner-up only to the Great Atlantic & Pacific Tea Company and to the Kroger Grocery & Baking Company in point of national chain grocery store stature. This is the heritage of Safeway whose 2,873 stores presently dot 22 states and serve millions of average-income consumers, with benefits described by H. G. Lucas, president of the Southwestern Pecan Growers Association, as follows:

"... All year-round, Safeway's direct distribution benefits both growers and consumers. Cutting out delay and waste means finer foods in the stores, at money-saving prices — more demand for everything the farmer grows.

"This bigger demand is built up, too, by Safeway's advertising of farm products, at no cost to the growers. Selling food this modern way is bound to return more money to the farmer."

It is interesting to note that 31% of the families represented on Safeway's payroll own their own homes; over 62% own their own cars.

MORE GREAT CHAINS BORN

Among other great chain store institutions originating in this pre-World War period were David Pender Grocery Co.; Hook Drug; Daniel Reeves, all founded in 1900; F. & W. Grand-Silver Stores, in 1901, but now merged in the well-known H. L. Green Co.; Schultz Brothers, in 1902; Lane Bryant and Morris 5c to \$1.00 Stores, organized in 1903; famed Peoples Drug, in 1905; Jules Chain Stores in 1907; Handelman's in 1908; Gallaher Drug in 1909; Graham Department Stores also in 1909; Feltman & Curme in 1911; Martha Washington in 1911; Kuhn Bros. in 1913; Economy Grocery Stores, Dejay Stores and Bond Stores, all in 1915 and the Waldorf System in 1919.

Autenreith, Duckwall, Mattingly, McElroy, Najarian, Tresslar, Trimmer and other of our present-day "five and ten" institutions saw their first light of day and subsequent substantial progress in this era.

Rose's 5c, 10c, 25c Stores whose 104 stores today grace the Main Streets of 5 Southern States also had its early beginnings during this period as did the well-known sectional company, Sprouse-Reitz, whose origin, growth and development has been centered on the Pacific Coast and in the Mountain States.

Among other great variety store institutions that originated in this pre-World War period were . . . (1) the Neisner Brothers Company — organized as a single, effectively-operated unit in Rochester, N. Y., in 1911 . . . (2) the McLellan Stores Company, which was developed in 1916 in North Carolina as a result of the founder's knowledge of consumer requirements and his ability to meet public demand with reliable, wanted goods at moderate retail cost, and, finally, (3) the M. H. Fishman Company in 1917, which today operates 39 stores in 9 states.

SUMMARY TO 1914

Before entering into the third period in the history of the chain store, a brief review of what has occurred to here may prove helpful.

Beginning with the birth, in 1859 of the Great American Tea Company and with its offspring, the Great Atlantic & Pacific Tea Company, modern chain stores originated as individually-owned establishments in various fields and, with passing time, experienced a steady, slow growth both in the number of units operated and in terms of sales. By 1914, there were about 500 chain store systems operating approximately 8,000 units.

In 1920, however the stature of the modern American chain store had reached the point where it carried 27,000 units within its family.

Although greatest chain store development had occurred in the grocery field, definite progress had likewise been made by other types of chains especially those operating drug stores, "five and tens", general merchandise stores, apparel stores, restaurants, tobacco stores, shoe stores and others.

Within forty-one years (1859-1900), therefore, the American chain store had grown from a series of local retail stores, in a period of high mortality among retail enterprises, to a commanding place in American business. Within another fourteen years (by 1914), it had reached the proportions of a national merchandising service that, in a thousand ways, was advancing the social and economic welfare of the United States and raising the standard of living of American homes, from coast-to-coast.

PART V

The Period of Greatest Chain Store Expansion (1914 — 1929)

War clouds were soaring over the entire world in 1914. Extreme nationalism and imperialism had set up definite alignments among the European countries and it was only necessary to apply a spark to this pyre to ignite it. The outbreak came when the Austrian Grand Duke was assassinated in Sarajevo, Serbia. This crime impelled the nations of the world into a most destructive and bitter war.

Even though the United States did not at once participate in the struggle, the effect of this war on the country was astounding. Thoughts of domestic distribution and marketing faded as the production efforts of America were galvanized into feverish activity in order to feed, to clothe, and to arm the whole world.

During this emergency, many production processes were perfected. Our volume of goods doubled and redoubled. Many of our factories switched to the making of munitions. All America was under unusual productive pressure.

The entrance of the United States into the World War accelerated even the previous productive pace of the nation. America was primarily concerned with winning the war and restoring peace to the world. To a large extent, therefore, domestic distribution was left to adjust itself to the nation's emergency conditions as best it could.

AMERICA'S GREAT POST-WAR NEED

America, after the war, was confronted with a severe problem of reconstruction. A perfected productive system able to turn out a vast amount of merchandise existed, to be sure, but no adequate distributive system had developed along with it.

Consumers shouted for goods which the manufacturers were producing in large quantities, but our distributive system was unable to meet demands. This was undoubtedly a seller's market.

To meet the orgy of demand, distributors overstocked their retailers' shelves; manufacturers stepped-up their production schedules; retail prices skyrocketed to such an extent that the lower-income groups of the nation clamored against the "high cost of living". There were economists who insisted that the business millenium had arrived. But time and economic law work in all things.

Eventually consumption lagged — finally, all but ceased. Manufacturers geared to turn out products on a large scale were left stranded with huge surpluses — distributors found themselves overburdened with supplies. The result was the period of depression of 1920 — 1921.⁹

It was evident to business men everywhere that improvement in our distributive system and the elimination of distributive wastes were now not merely desirable but were critically necessary.

Production, it was seen, had exhausted itself to reduce expenditures, to analyze purchasing power, to cut transportation costs and to increase inventory turnover. To restore prosperity and economic equilibrium in these depression days of 1920—1921, a comparable effort had to be applied to retail distribution. Under these conditions, chain stores received their greatest opportunity to serve and, accordingly, saw their greatest development.

CHAINS RECEIVE OPPORTUNITY TO SERVE

Since 1859, they had been slowly gaining momentum. Originating as efficiently-operated, popular, single units, they had developed from within and were in good financial condition. They were centrally-owned; their highly-developed retail sales outlets were located in the so-called 100% locations in the most important trading centers in the country. They generally operated on the cash-and-carry basis, concentrated on rapid stock turn, had more liquid assets and commanded generous credit. Moreover, they could sell more economically because of their shorter, more direct, route through which merchandise reached ultimate consumers. The post-World War depression gave them their great opportunity to prove this.

Manufacturers had produced a surplus which they could not dispose through the ordinary channels of distribution and the chains, being a shorter

*Note*⁹ In the October 1939 issue of *Chain Store Age*, Godfrey M. Lebharr called attention to the fact that according to the records of the U. S. Department of Labor, retail food prices started to climb gradually but persistently in 1914. By 1918, retail prices had climbed so much faster than union wage rates that the union worker's buying power, so far as food was concerned, was only 77% of what it had been in 1913, although his money wages had increased 30% in the same period. By 1920, retail food prices reached an index figure of 203.4 compared with 100 for 1913; in 1921, the bubble burst. The food index dropped precipitately to 153.3.

route to the consumer, were in a favorable position to sell this surplus. The manufacturers were willing to provide these goods in great quantities and the chains, by buying in quantities, for cash, were able to pass the resultant savings on to American consumers whose purchasing power sorely needed revitalizing. Hence, chain stores represented a profitable market for the overstocked American fabricator and producer and an economical, convenient market for the harassed American consumer.

AMERICA FINDS CHAIN STORES READY

The American manufacturer was quick to recognize the benefit of selling his wares and merchandise, directly, in large quantities to American chain stores. American consumers were equally prompt in perceiving the values, services and conveniences available in American chain stores.

Hence, the urban movement, the improvement of roads and the use of automobiles, the concentration of a large portion of our population in our cities, the acute depression following the World War, the development of mass production, the new desire of the American public to acquire conveniences and luxuries, the necessity of buying such luxuries as economically as possible, and, to some extent, the success of installment buying, all played a standout role in the unprecedented expansion of chain stores from 1920 to 1929.

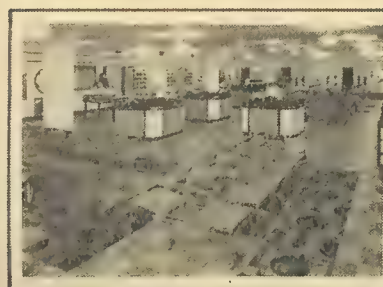
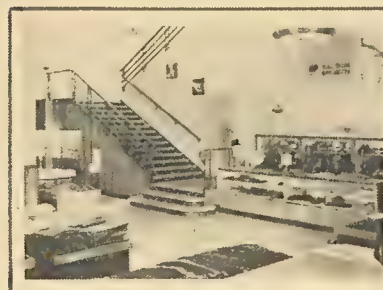
And that rapid expansion of chain stores was built upon a foundation of slow but vigorous growth dating back many decades. During their entire development period, chain stores had concentrated on perfecting disciplined, progressive operating methods and practices and the aforementioned conditions simply provided them with the opportunity to harness these methods and practices, on an enlarged scale, in order to clear the overstocked shelves of producers and to fill the empty larders of consumers with necessities and to bring them conveniences and luxuries at economical prices.

GREAT POST-WAR CHAIN GROWTH

The chain-store industry undoubtedly saw its greatest growth, as previously stated, from 1920 to 1929. In the seven years between 1920 and 1927, for example, the sales volume of chain stores tripled. From 27,000 stores in 1920, chain store units increased to about 100,000 by 1927.

In 1921, the sales of the Great Atlantic & Pacific Tea Co. aggregated \$234,420,618 . . . by 1927 this amount had been tripled. The Walgreen Co.'s sales, as a further example, had increased twenty times. In 1919, the F. W. Woolworth Co. had sales per-store reaching \$110,000 . . . Kresge's amounted to \$253,000 per-store . . . J. C. Penney's to \$132,000 per-store. By 1927, Woolworth's sales increased to \$172,000 per-store . . . Kresge's to \$307,000 per-store and J. C. Penney's to \$170,000 per-unit. These are but

Typical Chain Stores



few examples of the tremendous strides made by the chain store industry during this period.

The impetus of this great post-World War chain store development, moreover, was so forceful that it also lifted efficient individual retailers and carried them to substantial growth. Many alert, efficiently-operated independent merchants soon opened a second store, and a third, and laid the foundation, in this period, for the chain store stature that they enjoy today. Examples in point being too numerous to detail here, only two companies, selected at random, will be used to illustrate this point.

ANDERSON FOUNDS WHITE CASTLE

Picture a small building, 12 feet long and 5½ feet wide, a make-shift structure built from what obviously had been a broken-down street car of the mule-drawn variety; a sign that proclaimed, "Hamburgers, 5c"; a flat piece of iron upon which tasty sandwiches were fried; three shaky stools before a home-made counter behind which stood W. L. Anderson, a sandy-haired man with a smile on his face and an unlimited capacity for work; a business for whose \$60 original investment, Mr. Anderson had to struggle for weeks to raise.

Contrast with this picture that of The White Castle System of Eating Houses Corporation of today; a business serving millions of delicious sandwiches each year to many millions of customers from the Middle West to the Atlantic Coast; operating more than a hundred spacious castles, finished in white porcelain enamel, equipped with modern devices for the proper care of food and its serving; an institution that has grown and prospered because it has earned the right to grow and prosper through the service it has rendered the public. That's example Number One!

EDISON BROTHERS BUILD CHAIN

In 1922, five brothers pooled their interests, organizing Edison Brothers Co. Today, Edison Brothers operates the largest number of exclusively women shoe stores of any shoe chain in America.

Several years ago, the chain entered the West; its stores on the coast extend today from Los Angeles to Seattle.

The Edisons have concentrated on the job of retailing shoes. They own no shoe factories, have no financial interest in any and leave the problems and worries of manufacturing to others who, they say, know more about it.

It is interesting to note that when a new store is opened, Edison sends a manager and an assistant manager who have risen from the ranks, to take charge. The rest of the store's personnel is recruited from residents of the town where the store is located who are then trained in the Edison way by

the manager and his experienced assistant. Only men are employed to sell shoes. Women are used to sell hosiery and handbags.

Labor turnover in the Edison Company is slight. Some of the men have been with the organization since it started. As in most chains, promotions are made within the organization. If a salesman shows promise of having executive ability, he is made an assistant manager. If he succeeds in that post, he is made manager either in the store in which he is located or in a new unit.

Those ambitious Edison brothers whose success has been noteworthy in the shoe trade and whose enlightened, homespun interest in the welfare of Edison employees has won them the loyalty of worker and customer alike, now operate 123 units. That's example Number Two!

OTHER GREAT CHAINS DEVELOP

Among the many chain store organizations of 1939 America which either saw their origin as chain stores from single store beginnings, or their greatest development, during this post-World War period, are Autenreith's Dollar Stores (1916); Mangel Stores Corp. (1916); National Shirt Shops, Inc. (1917); Miller-Jones Co. (1920); The Schiff Co. (1920); The Selby Shoe Co. (1920); B/G Foods, Inc. (1921); Mary Lee Candies, Inc. (1921); Morgan & Lindsey (1921); Sontag Chain Stores Co., Ltd. (1921); C. R. Anthony Co. (1921); Sterling Stores Co., Inc. (1922); Adam Hat Stores, Inc. (1924); Charles Stores Co. (1925); Gamble-Skogmo, Inc. (1925); and Weinberger Drug Co. (1926).

MAIL-ORDER HOUSES TURN CHAINS

Meantime, no document chronicling chain store growth and development in America would be complete without detailing the entrance of the mail-order houses into the retail field of the nation to the great benefit of consumers. Montgomery Ward's transition in this direction dates from 1926; Sears, Roebuck's from 1925. Let's illustrate the point through the latter, which saw light of day as a mail-order company in 1893.

From scratch in February, 1925 to sales of more than a third of a billion dollars a year and leadership in the retail dry goods field in 14 years That's the heritage of Sears, Roebuck & Co's retail stores.

No Alladin's lamp was rubbed and made to produce the Sears record of having greatly benefitted American consumers through standout retail values, and lost money only in one year in fourteen, including four difficult depression years. That record was achieved for Sears by American consumers, themselves. It represents evidence that Sears brought values, services, conveniences which consumers liked. The tested consumer popularity of Sears substantiates this.

One of the foremost lessons that may be learned from the nation's largest general merchandise chain is the emphasis that it places on the human element and the concentration that it practices on maintaining personnel esprit de corps of the highest order. The Sears chain has been built not only upon a sound plan or system of policy and operation but also upon an organization of human beings working as a team for company and personal progress.

One of the most important policies adopted by Sears at origin, for instance, was to put each store manager on his own, once carefully selected, and make him a crack merchant. From scratch, therefore, each Sears unit has been made to stand on its own feet and each unit has since been judged by the benefits of service, quality and values that it has passed on to Sears' customers. Moreover, Sears store rents and other expense items are not averaged and each store is required to bear its proportionate charge of central office expense.

The Sears' store manager, then, is, in effect, an individual retailer and has the full responsibility of operating his unit so successfully that it will progress exceedingly. Since Sears ruled out arbitrary shipments of goods to stores practically from origin, the manager of a Sears unit differs from the owner or manager of an individually-owned establishment only in three principal respects, namely (1) that a merited loan is available to him from Sears' headquarters when needed, (2) that he has the benefit of Sears' extensive research, information and sales-aid facilities and (3) that he needs no staff of buyers because, after he has made his selections from Sears' comprehensive assortment of sales items, his customers receive, in values, the benefit of Sears' resultant mass purchasing ability.

THE SPIRIT OF SEARS

Probably 70 percent of the merchandise offered at Sears is of a staple character. In order both to bring this staple merchandise and the fashion products offered in Sears' stores economically, efficiently to consumers, therefore, more efficient selling is the constant goal of the company. Accordingly, intensive training of salespeople is rigid Sears' rule and that rule applies as insistently to non-selling employees as to those who directly serve Sears customers. Every "A" store, for example, has a training director. Though Sears' so-called "B" units do not have such training directors, the manager or assistant is charged with the responsibility both of giving salespeople thorough merchandise training and of perfecting their ability to meet and serve consumers well.

Assisting in this connection is the Training Division at Sears' headquarters and its wealth of training material data, which data, incidentally, are so well considered that they have been drafted as models by certain organizations operating under the George-Deen Act.

Stimulated by the benefactions and the civic mindedness of the late Julius Rosenwald who headed the company for so many years, the spirit of civic service is keen at Sears. The records show, for example, that in the Ohio flood of 1937 — just as in the Pennsylvania flood of 1936 — Sears didn't merely make donations to the Red Cross and let it go at that.

Some Sears' stores were refugee headquarters; all donated materials and supplies including boats, batteries, flashlights and even motors to provide hospitals with light and power when the local utilities failed.

It is said that Sears' men travelled up and down the beserk rivers looking for ways to help. Stories of heroism by Sears' people are among the floodtime legends of the river country.

In Chicago, in 1938, General Robert E. Wood, then President, now Chairman of the Board of Sears, Roebuck, headed the Community Fund campaign. He is the same General who, in 1905, during his active army days, took the initiative to found the Commissaries of the Panama Canal in order to provide acceptable supplies, at fair prices, for the American personnel digging the Canal.

In 1937, the Industrial Division of the Chicago Community Fund was headed by T. J. Carney, now President of Sears. In 1939, Donald M. Nelson, Executive Vice-President, served as Chairman of the Greater Chicago Drive.

These facts are not incidents from the book of bigger, better business or on how to make money through merchandising. They are merely co-efficients of citizenship. Yet they attest a morale that in company with the fruits of sound, progressive operating policies and merchandising practices, has won consumer popularity for Sears and brought it unprecedented progress in 14 years.

PART VI

Chain Stores in 1939 America

In the period since 1929 — years of depressed business, of suspended expansion and of declining commodity prices — chain stores, in common with all businesses, have learned some very valuable lessons. They have recognized the futility of adding a number of units merely for the sake of achieving size or position and during these past years have concentrated on making a fair return from current sales.

In consequence, large national companies which grew too quickly in the post-World War period of intensive chain store expansion have turned about since 1929 and have adopted new policies regarding further growth. Many companies have consolidated their past growth by concentrated effort to increase the sales volumes of their established units.

If, for any reason, they found that a profitable volume could not be attained in one of their retail units, that store was closed. With unprofitable units eliminated, the companies have since been enabled to cultivate the full sales possibilities of their remaining units.

CHAINS ANTICIPATE CONSUMER'S DESIRES

On the other hand, progressive companies have not overlooked the necessity of keeping up with the times. They anticipated the trend for combination stores and for modern fixtures and arrangement.

Great strides have recently been made in renovating, modernizing, beautifying chain stores. In the two years 1937 and 1938, for instance, about \$233,000,000 has been spent by chain stores for this purpose regardless of the drop in construction expenditures, generally, in America.

Just as they foresaw increasing consumer demand for attractive store atmosphere, so, too, did chain stores take advantage of unusual opportunities to open new stores in choice locations at the lower rentals which became available during this post-1929 period of real estate deflation.

The elimination of certain price ranges, the consolidation of warehouses, a closer check on inventories, a stricter supervision of all central office activities and a more intensive control of store costs were some of the other steps that have been undertaken by chain store companies to adjust themselves to America's post-1929 business conditions. Accordingly, streamlined, economically-operated chain stores are today passing even greater benefits to America's 130 million consumers than ever before. They are, however, receiving the keenest sort of competition from individual retailers whose number of stores and whose share of the American retail trade have both mounted since 1929. Substantiating evidence follows:

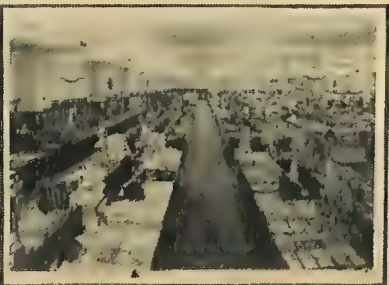
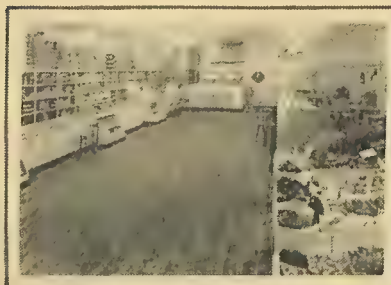
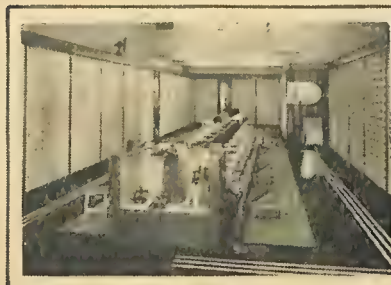
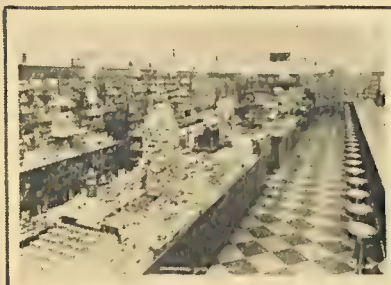
GROWTH OF INDIVIDUAL ENTERPRISE

While total retail sales fell off in the United States by 49% between 1929 and 1933, the United States Department of Commerce found that the number of independent retail stores declined during this period by only 2%, or scarcely at all. Meantime, the number of independent retailers (proprietors actively engaged in their stores but not on payrolls) increased by 3.1%.

In 1935, the U. S. Census of Business found that the number of independent stores in existence in the United States had mounted by 9.2% over 1933, and, more astonishing, was 7.2% *above* the 1929 peak.

Moreover, while the number of independent retail stores declined by only 2%, the number of chain stores in America dropped 4.6% between 1929 and 1933. By 1935, the nation had witnessed further decreases in the number of chain store units. In that year, there were 8.2% less chain stores than in 1933.

Typical Chain Stores



Many persons had supposed that the depression, together with the competition of department stores, mail-order houses and particularly of chain stores, had driven a large number of small retailers out of business. The above governmental data make it clear, however, that this is not so. Independent retailers actually increased while chain stores declined in numbers.

FEWER BUT STRONGER CHAIN STORES

The statistics on retail sales volume from the U. S. Census of Business for 1933 may seem to contradict these statements, but the contradiction is apparent rather than real. America's total retail sales in 1933, as already stated, declined about 49%. Chain store sales declined by 37%. Consequently chain store sales, which in 1929 had amounted to 20% increased to 25.4% of the nation's total retail sales in 1933.

By 1935, the Census showed that this trend was completed. Chain store sales in 1935 had increased only a little over 18% from their total for the depression year 1933, while sales of independent stores, in 1935, were up an average of nearly 36%, or about twice as much proportionately. The result was that the chain store share of America's total retail trade in 1935 went down to 22.8%.

These figures clearly show that, along with actual and relative declines in their numbers of units, chain stores are certainly not giving any indication of absorbing more and more of the retail trade of the country. The apparent increase in 1933 in the chain store share of total retail trade resulted, as we have seen in Chapter I, from the fact that chain stores deal largely in staples, necessities and well-advertised goods. The sales in these goods did not fall off during the depression either in chain or in independent stores in the same proportion as in novelties, fashion goods, home furnishings, and in the building equipment lines that are largely handled by retail trades in which chain stores are comparatively unimportant. Consequently, the chains in 1933 made a better showing than general retail trade.

But there is nothing to indicate that chain stores did better than independent stores in those lines in which they operated. When sales in novelties, fashion goods, home furnishings and other lines which after 1929 had fallen off so heavily began to rise again in 1935, the proportion of retail trade enjoyed by chain stores showed a decline.

And, it is no news justifying headlines that chains are not now expanding as they did back in the 1920's. Indeed, there are, today, fewer units in many well-known chains than there were in 1929, but these units are mainly strong, well-managed, consumer-liked establishments that are justifying their existence through standout achievement.

These data should definitely set to rest the fears that the independent merchant is doomed because of the breathtaking growth and development of chain stores in America. Indeed, it may now be concluded that the chain store system of distribution is approaching, or has already reached, maturity.

Moreover, the door to successful retailing is no more closed today to the qualified retailer who finds it necessary to begin in a small way than it has ever been in this country. In part, this fact is demonstrated by the increase of approximately 100,000 in the number of independent retailers from 1929 to 1935. It is even better illustrated, however, by the continuing ability of small independent retailers, in the face of keen large-scale retailer competition, gradually to develop themselves into highly-successful small chain operators.

THE SMALL MERCHANT GROWS BIG

From one end of America to the other, one finds a large number of variety store operators, for example, who though operating but one small store a few years ago, today are thrusting five, ten or fifteen units of their own in competition with such companies as Kresge, Woolworth, Newberry, Grant, Kress, McCrory, McLellan, Murphy, H. L. Green, Neisner, Scott-Burr, Charles and others.

Even in the highly-competitive Eastern States, the M. H. Fishman Company for instance, has tackled the leading variety chains in competition and has flourished today to a chain of thirty-nine units with sales of over \$4,000,000, annually. The development of the Lincoln Stores, now with fourteen units, is but another case among many in point, and these instances are by no means restricted to the variety store field.

In the shoe field the same trend is evident. Small-scale shoe retailers are successfully coming to grips with Melville, with Regal, with Douglas, with other crack shoe chains, to say nothing of the shoe businesses of worthy department store competitors. By 1929, the John Irving Shoe Company, for example, had developed to ten units; by 1936, it operated forty-eight stores. Pollacks, Incorporated had but five stores in 1929; it has fourteen at this writing.

The drug field offers even a greater number of examples of the opportunities in post-1929 America for individual retailers to progress and small-scale enterprises to achieve their fullest possibilities.

In 1929, for instance, there were but three Thrifty Drug Stores in California and their total sales were estimated at but \$300,000. At the close of 1936, however, this company had thirty stores; its sales were in excess of \$8,000,000. Thrifty profits, moreover, increased from an estimated \$15,000 in 1929 to over \$300,000 in 1936.

The Sontag Drug Stores, also of California, further illustrate the continued opportunities for growth and development in America from single store beginnings. From a single store just a few years ago, this company at this writing, has over fifty stores. Its sales in 1938 aggregated

over \$9,000,000 and its profits for that year totalled over \$300,000. And out in Kansas City, the development of the Katz Drug Stores from four units in 1929 to thirteen in 1939 serves as another case illustrating this point.

In the face of these few but significant examples, it seems fair, therefore, to conclude that the qualified, competent small-scale operator can continue to look confidently for retail progress despite the keen competition of chains, department stores, and mail-order houses. Moreover, the small-scale independent operator has found out that he can compete with the chain and has gone ahead and done so as shown by the following findings of the Twentieth Century Fund.

CHAINS SHOW LOWER COSTS

After examining some of the trends in operating costs during recent years, the Twentieth Century Fund's research report pointed out that, for all kinds of retail outlets, the operating expense ratio averaged 24.8 per cent in 1929; then rose (as sales volume decreased) to 32.2 per cent in 1933; and stood at 27.5 per cent in 1935.

Cautioning that the cost of more numerous consumer services in independent stores, the wider variety of merchandise offered in such stores, their smaller sales volumes and similar modifying factors should be kept in mind in analysing its survey findings, the Twentieth Century Fund, in releasing the conclusions of its recent study on distribution costs cited figures to show that during the last year for which complete statistics are available (1935), independent stores, as a whole used 28.4 percent of their net sales to pay their operating expenses. The comparable ratio for chain stores was estimated at somewhere between 25 and 27.5 per cent of net sales. No exact figure could be given, Twentieth Century Fund said, because of the difficulty of making a precise allocation of certain chain activities as between the wholesaler function and the retailer function.

Making a more detailed analysis with respect to chain stores and independents, the Twentieth Century Fund found that between 1929 and 1933, chain stores showed both a smaller loss in total sales and a lesser increase in cost ratios than did the independents. "But by 1935 this trend was reversed", said the Twentieth Century Fund report, "and the independents increased their sales and decreased operating expenses at a more rapid rate than the chains".

PART VII

Conclusion

We may conclude from all that we have viewed in this chapter that each of our various types of retailing in America came into existence because of peculiar and special services that each was able to render to the public — services which the public desired and from which it benefited greatly.

Each new type of retail institution that has blossomed in America has helped to raise the standard of retail service to the public, not only through its own efforts, but also through its influence on all other forms of business. Indeed, the public benefits whenever a new and successful institution appears, and, in the long run, all retailing is better off because of it.

The growth of individual retailers into chain stores, and the development of chain stores into great American institutions occurred mainly because these stores, in the span of eighty years, have contributed greatly to the advancement of retail service to the American people. These stores have grown from scratch to their present stature because they have brought America the benefits that are enumerated by E. C. Sams, president of the J. C. Penney Company as follows:

1. They have largely eliminated retail exploitation of unprotected localities through a policy of one price, plainly marked.
2. They have established a higher standard of storekeeping; with better sanitary standards, with more attractive displays and with more convenient shopping facilities.
3. They have increased the attractiveness and quality of merchandise and made available a variety to more isolated sections through mass production and large scale retailing.
4. They have gone a long way in eliminating waste in distribution with untold saving to their customers.
5. They have placed a desirable emphasis upon a cash — or pay as you go — policy among the general public, particularly as to the every-day needs of life.
6. They have created a generally-improved type of merchant not only within their own ranks but, by example and competitive necessity, among their wideawake competitors who have profited from proximity to ably-managed stores.
7. They have increased consumption through lowered prices, with a consequent increase in productive employment and with improved standards of living.
8. They have partially checked the tendency of people in suburban or rural areas to flock to the cities, because they have brought to thousands of Main Streets some of the advantages often associated only with metropolitan centers.

And the chain store has rendered its great service and has gained its distinction and its progress as follows:

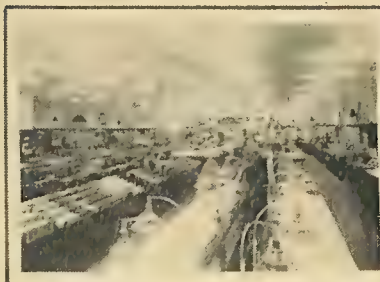
1. Through its more limited services such as the cash-and-carry policy, etc.

2. Through efficient store operation resulting in lower costs of selling, in more sales per-employee, or more sales per-square foot of retail store space, than had hitherto been secured by the older types of retail stores.
3. Through more carefully-planned stocks which resulted in higher sales and a faster turnover. A better turnover insured a lower overhead expense. This, in turn, meant that goods could profitably be sold at a lower gross margin. Moreover, most chain stores were also willing to carry on their business at a lower rate of net profit per-dollar of sales as a means of extending their trade.
4. Through the purchase of goods directly from producers which, in turn, made it possible, in some part, to eliminate the expenses and profits formerly required in wholesaling and in other middlemen institutions.
5. Through large quantity purchases which have enabled it to buy goods for less because of the savings its sizeable purchases made for producers in selling, warehousing, transportation, accounting, credit and other expenses.

The chain store, today, is coming or has already come of age. This does not mean that it has reached the point of decline, but rather that, if left to itself, unhampered by unfair restrictions and class legislation, it might go on with the other systems of distribution in providing goods and services to the consuming public at the most reasonable prices possible.

Consumers in this country now enjoy the best system of retailing in the world. This condition might well continue so long as an even balance is maintained among the competitive systems that seek the consumers' trade and so long as all retailers continue to enjoy the right to bring good food, good shoes, good clothing, good medicine and other necessities and wants of life to the American people on a footing of free and open competition unfettered by discriminatory taxation and by arbitrary regulation imposed to benefit a selfish proponent few at the consumers' expense.

Typical Chain Stores



CHAPTER THREE

WHY THE CHAIN STORE HAS PROGRESSED

The success of the chain store in America has not been due to any circumstance peculiar to itself and unavailable to other retailers. There is no mystery to it and no magic. No fairy waved her wand and gave chain stores any exclusive rights over merchandising progress and genuine consumer service.

Chain stores buy their goods where goods are to be had; they employ local workers from local employment marts and are governed by the same economic laws of purchase and sale as govern every other retailer.

The strong position that the chain store enjoys in America today is merely the result of fulfilling the two most essential requirements of successful retailing, namely, (1) know the consumers' needs and desires in merchandise and his likes and dislikes in store atmosphere, store service, store convenience, and (2) provide those needs and desires at the most economical retail prices possible, offered in modern, conveniently-located and arranged stores featuring courteous, efficient service for patrons.

Both chain store companies and efficient individual retailers have adapted their distributive policies and methods to satisfy these requirements. This, not mystery or magic, has brought them progress.

NO EXCLUSIVE RETAILING ADVANTAGES

The deeper one probes into the factors that have stimulated the growth of chain stores in America, the clearer becomes the conclusion that any advantage which chain stores may have over individual retailers is only that which inheres in sales volume and not in number of stores.

The large independent department store may sell more of one class of merchandise in one of its departments than is sold by the largest chain. By reason of its large volume, such a store may operate more efficiently than its smaller competitor, but it also may not — for even size is subject to certain disadvantages.

The value of the contribution of chain stores to American life rests squarely upon the savings and economies that they have brought to the consuming public, and the clean, convenient way in which they have offered them. It is true that chain stores have some specialized operating methods, but they have few which are not open to adoption by independent stores.

The elimination of the wasteful middleman has long been a major economic problem and, to a certain extent, the chain store has effected this economy on behalf of American consumers and on behalf of American economic progress. No matter whether we are considering quantity buying; buying for cash; skill in buying; warehousing; sales policy; or manage-

ment and methods, however, it is clear that the alert individual retailer can be as efficient as the chain store — if he will.

And this fact is as true in the non-grocery field as among food stores as demonstrated by the following excerpts from the article "Distribution through Voluntary Chains" by John L. Culver, General Manager, Voluntary Chain Division, Butler Brothers, Chicago, that appeared in the Executive Service Bulletin of the Metropolitan Life Insurance Company in September 1939:

"Butler Brothers, since the founding of the business in 1877 have been keenly interested in all merchandise distribution problems, particularly in their application to the retailer and they are responsible for many developments in retailing.

"With increasing consumer demand for greater values and more service, coupled with keen retail competition and growing emphasis upon style . . . Butler Brothers began, more than 10 years ago, the development of two voluntary chains of retail merchants as the nucleus for a continuous line of wholesaler-retailer-consumer distribution.

"Today, these voluntary chains number approximately 4,000 members, including a group of dry goods merchants operating under the name The Federated Stores of America, and a group of limited price variety stores known as the Ben Franklin Stores.

"These stores are independently-owned and managed but, for mutual benefit and protection, they operate under a franchise granted to them by Butler Brothers. These member stores are supplied with a complete operating program embracing the location department, which aids in the selection of the best business site available; a complete store engineering service; and a service which follows through every detail of merchandising, display, advertising and promotion. A special supervisory group gives assistance in maintaining stores at the highest productive standards.

"The purpose of voluntary chain distribution is not to control the operating of the members' stores or in any way impinge upon their activities as independent merchants but rather to synchronize these activities and pattern the entire distributing process by the yardstick of customer acceptance.

"It is interesting to analyze the specific application of the program in the field. A large number of prospective members fall into two classes:

- (a) The established merchant who has been extremely successful in the past but whose profits have dwindled through his inability to keep up with the times.

- (b) The prospective merchant — possibly a former chain store manager, or a man from some other line of business who desires to open a store, but who is too wise to make the attempt without the benefit of advice and facilities available to the chain operator with whom he must compete.

"The voluntary chain program of Butler Brothers meets the requirements of both of these types. A typical example of the former is found in a dry goods store in a midwestern town of approximately 10,000 population. This store enjoyed a prosperous business for over a generation, its reputation being such that it was able to coast along after its old-fashioned methods had taken it from the competitive class. The store was operated at a loss for more than two years. The owners poured in their private means in a vain attempt to keep going, and when these were exhausted, the situation became so acute that it was only a matter of months before the business would have been bankrupt.

"Fortunately for all concerned, the matter was referred to our Federated Stores Division. Experienced retail men surveyed the situation and eventually placed in the hands of the owner, a completely renovated business. This occurred more than seven years ago, and the store now has a more profitable business than ever before. More important, it is in a position to meet, on an equally profitable basis, any competition which may arise.

"An illustration of another application of the program is found in a young man who had been successful as a traveling representative, and who desired to settle in a small town in the South and open a store, although he had no experience whatever in variety retailing.

"Through the facilities of the Ben Franklin Division, a town was selected and the store site determined, after which the store was remodeled, equipped and stocked and salespeople hired and trained. In effect, Butler Brothers handed the merchant the keys to the front door — presenting him with a going establishment, ready to function profitably, and at the same time provided him with an operating program and supervisory service necessary to make up for his lack of experience.

"In five years, the merchant had been so successful that he has been able to open two additional stores in nearby towns and he now operates three stores under the Ben Franklin program."

PART I

How the Chain Has Made Its Progress

In buying, the chain store undoubtedly enjoys whatever advantage inheres in the factor of quantity. This advantage, however, is not restricted to chain stores for in the past few years, with the rapid growth of voluntary chains and cooperative buying organizations which are composed of a number of affiliated individually-owned retail establishments, manufacturers have been receiving equally large orders from these groups. Hence, individual retailers composing these buying groups have been receiving the same benefits of mass purchasing as units of corporate chain stores obtain through the mass purchasing abilities of their parent companies.

The large orders which chain stores give to manufacturers and producers serve to reduce, substantially, many of the manufacturers' and producers' costs of overhead. Accordingly, the retail prices which American consumers must pay for merchandise in chain stores are reduced by reason of the fact that chain stores pass directly to them, in lower retail prices, discounts and savings which they, in turn, have gained through purchasing in large quantities, for cash, directly from sources of supply.

One chain store organization, for instance, in one year alone, purchased 45,000 tons of candy — enough to fill a string of freight cars more than twenty miles long. In another organization, the annual purchase from a certain biscuit company amounted to more than \$10,000,000, while other orders placed by the same concern during that year included 50,000,000 pounds of coffee; 200,000,000 pounds of sugar and 200,000,000 pounds of soap.

More than 11,000 bales of cotton were used in one year for the towels sold in another chain store company. This order kept 2,000 looms working 24 hours a day, all year. It gave remunerative, steady occupation to 1,000 people.

Not long ago, more than 60 carloads of screens were purchased by a chain store company. The quantity of twine purchased from its source of supply by the same company, in the same year, was sufficient to encircle the earth twelve times.

Another chain store company purchased 7,500,000 pounds of yarn in one year. This meant that 3,500 hosiery machines, working 24 hours a day, gave employment to 2,400 people to make the men's, women's, children's and infants' stockings which that chain store company sold at chain store prices. It took 10,000,000 pounds of pulp to provide the wax, tissue and toilet paper sold to customers over that same company's counters in one year.

For nearly fifty years, the entire factory of a big manufacturer has been working every day in the year to provide the tinsel and other brilliant tree decorations sold in the stores of but one of the larger chain variety store

WHY THE CHAIN STORE HAS PROGRESSED

companies. The same company yearly buys enough neckties to stretch from Rockefeller Center, in New York City, to the Rocky Mountains. Annually, this same company also buys nine million yards of curtain material; 400,000 barrels of glassware; it purchases enamelware enough to fill a freight train $7\frac{1}{2}$ miles long.

Since quantity is one of the main factors controlling cost price, the huge direct purchases made both by chain stores and by cooperative buying groups, therefore, bring them substantial purchase economies. Who benefits from these economies? Who but 130,000,000 American consumers!

BENEFITS OF QUANTITY BUYING

Reasons why a producer can reduce cost on large orders are simple and sound.

Large orders help to cut down overhead expenses for the manufacturer; production can be standardized and economical machine processes introduced. Then again, the large order enables the manufacturer to anticipate his production schedule and he, in turn, is able to buy his raw material on a large scale and at a substantial saving.

Some wholesalers and jobbers keep the producer in suspense until the last minute because they are not in a position to order more merchandise until their stock on hand is exhausted. In contrast, chain store companies and many voluntary chains furnish a steady demand to the manufacturer by contracting for production months in advance.

Several years ago, for example, a well-known doll maker was compelled to close his factory because of the uncertainty of orders from certain of his wholesaler patrons. The J. C. Penney Co. contracted to take the entire output of this doll maker, thereby permitting his erstwhile idle plant to continue operating on its regular, full-time production schedule.

The Penney Company, moreover, paid cash for its order. It accepted weekly shipments of dolls. So effectively were they distributed by the J. C. Penney Co. that by Christmas, the entire doll supply had been exhausted — sold profitably to consumers at lower retail prices.

SCIENTIFIC OPERATION BRINGS CHAIN PROGRESS

Hence, in addition to the saving made by buying centrally and in large quantities, chain stores save money for consumers by purchasing directly from manufacturers and producers and avoiding, to the greatest extent possible, such middlemen as jobbers and wholesalers. According to Dr. Paul H. Nystrom, the wholesaler's charge in the grocery field ranges from 4 to 12%, with an average from about 6 to 8%. Grocery chains purchase about 70% of their merchandise direct from manufacturers and producers. On the other hand, approximately that percentage of the purchases of individually-owned stores is bought from jobbers and wholesalers.

THE CHAIN STORE TELLS ITS STORY

By reducing the cost of the jobbing or wholesaling step in distribution, therefore, chain stores achieve another of their price economies to the great benefit of American consumers who need savings on their retail purchases.

CHAINS PRACTICE CASH SELLING

Chain stores generally operate on the cash basis in both buying and selling. They obtain a discount for paying cash to the producer and, in turn, are able to save themselves important credit losses and costs by selling strictly for cash.

Every store owner knows that it is a large expense to give credit service. This service requires bookkeeping and handling costs. Furthermore, heavy losses are often incurred through non-payment of bills. By selling for cash, therefore, chain stores avoid both of these costly items, the elimination of which contributes to their ability to offer high quality products at lower retail prices.

The amazing growth of cash-and-carry grocery stores, both chain-operated and individually-owned demonstrates that many people are willing to forego credit, delivery and telephone order service in order that they may effect needed economies on their necessities of life.

In lines of merchandise in which credit and telephone order service are regarded as necessary or desirable, on the other hand, chain stores offer both. The following Federal Trade Commission table attests this.¹

TABLE

Kind of Chain Store	Credit Service % of stores giving credit	*Phone Service % of stores giving phone service
Furniture	100.0%	44.7%
Department Stores	98.9%	29.9%
Hardware	91.5%	89.8%
Men's and Women's Apparel	89.4%	19.0%
General Merchandise	67.1%	85.6%
Millinery	60.6%	44.8%
Women's Shoes	53.1%	30.1%
Men's Apparel	43.7%	26.8%
Women's Apparel	42.4%	12.8%
Drug	34.3%	94.5%
Grocery	13.6%	53.3%
Grocery & Meat	3.9%	64.1%

*Note*¹ *Reference Source:* United States Senate Document 91, 73rd Congress, 2nd Session.

Faulty buying has always been a mortal enemy to the efforts of retailers to carry on the wasteless distribution of their products. No matter how efficient a merchant may otherwise be, if he cannot strike an effective balance between supply and demand, if he cannot gauge his stock to the elimination of costly surplus or to the equally-expensive inability to furnish products at the time when they are needed, he is doomed to failure. Chain store companies recognized this fact long ago. From origin, therefore, they have concentrated on achieving faultless buying ability.

CHAIN STORES BUY EXPERTLY

Chain stores employ buyers with many years of experience, men who are specialists in their field and who thoroughly know the needs and desires of their company and its customers. These companies test their buying by scientific analyses, by chemical tests and by other devices. Intelligent specifications are supplied to manufacturers and companies find out for their customers, before buying, things all of us like to know about merchandise before we purchase.

Chain store buyers have at their command, moreover, the benefits of the latest, most scientific data and the findings of surveys based upon the previous year's experience in respective lines of merchandise. By an endless study of consumer desire they know what their customers want; by constant attention to the producing markets they know where the desires of consumers may more economically be procured; by purchasing efficiently and sensibly they are able to pass desired items to consumers at lower retail prices.

In this way, too, the chain store company can anticipate its demands. It knows what it needs and when it needs it. It reduces costly overage, money tied up in goods, and lessens the possibility of disappointing consumers. Furthermore, it can cooperate effectively with manufacturers for it saves them the cost of sending out extra and superfluous salesmen and does away with the expenses involved in extra advertising, dealer helps, extra handling costs and similar considerations. The consumer, ultimately, is the greatest beneficiary from the ability of chain stores to buy expertly and with a minimum of waste and effort.

CONSUMER REAPS CHAIN BUYING BENEFITS

Not only is the chain store buyer a specialist in purchasing for large-scale consumption, but he likewise knows how to provide consumers with luxury, fashion and higher-priced merchandise which they want at prices well within their means.

No sooner does he spot a luxury, fashion or higher-price item which consumers want, for example, than his exhaustive study of how that item can be made to sell more economically commences. He burns the midnight oil. Fancy trimmings here, and intricate workmanship there, are eliminated — but the basic factors are retained. Take sheets, for example.

Old-fashioned stores used to carry 30 or more different types of sheets. Modern chain stores found they could boil down the whole lot to five or six numbers to sell to consumers at substantially lower prices. Accordingly, experienced buyers took the best features of each of the 30 different types of sheets and included them into their specifications. The chain store numbers that were, in due time, placed on sale in chain stores at lower retail prices, differed from the 30 types of sheets sold by higher-priced merchants solely in dimensions.

The large orders placed by chain store buyers provide a steady flow of merchandise for many factories. They make possible manufacturing economies because of a standardization of quality, packing and brands. The financial standing of chain store companies and the assurance of prompt payment, free the manufacturer from much of the expense that is an essential part of a credit business, or a business that depends upon a large group of separate purchasers.

It is a significant fact that chain store companies are purchasing today from a surprisingly large number of sources of supply with whom they have uninterruptedly done business practically since their origin. Close association has nurtured mutual sympathy and understanding between source of supply and chain store with the ultimate consumer as principal beneficiary. Even in the years when general business conditions are most difficult, chain stores contribute substantially to the stabilization of manufacturing conditions and to steady employment in manufacturing centers.

PRIVILEGES BROUGHT TO THE MASSES

In 1939 America, 90% of all women are users of toilet soaps and powders; 65% of all women use cream and lipstick; more than 50% of all women buy perfumes and toilet goods. The aggregate sale of toilet goods, cosmetics and toilet soaps in the United States, in 1938 totalled \$485,000,000. Significantly, one-fifth of that amount was purchased from "five and tens" — a class of store which has done so much to bring the privileges of the few to the masses of America.

Manufacturers are not necessarily merchandisers. Many times they cannot see the possibilities of an item until they are shown. Expert chain store buyers, in countless instances have taught manufacturers how they could revise their methods with profitable output increase as result. Straight to the chain store industry, in fact, must be traced much of the development and expansion of many of America's manufacturing industries.

Celluloid dolls, for example, were off the market during the World War, even later, simply because foreign suppliers had shifted from dolls to war supplies and nobody in America apparently knew how to make celluloid dolls. A chain store buyer who had bought toys in Europe before the War had made such a close study of the subject that he was able to show American manufacturers how they could profitably produce small

WHY THE CHAIN STORE HAS PROGRESSED

dolls to retail at a dime. Accordingly, the celluloid doll industry, today, is a substantial American industry.

During the World War, Christmas tree ornaments, too, were not to be had at any price. A chain store buyer felt confident that a certain manufacturer could make them and caused him to try some experiments which proved successful. One chain store company sold millions of them shortly thereafter — all "made in the U. S. A." American-made Christmas tree ornaments, in time, became abundant. Thus, American manufacturers were developed and the American people were given a desired item, at prices within their means, that otherwise would have been denied them.

Speaking of American manufacturers, it is an interesting fact that chain stores, even before the World War, bought the preponderant bulk of their merchandise in the United States. And since that War, their huge domestic purchases have so developed American manufacturers for many lines that chain stores need never again go abroad for supplies.

During the influenza epidemic in the fall of 1918, there was a record-breaking demand for handkerchiefs. Prices were high because the cost of raw material kept shooting up like a rocket. Chain stores kept on selling handkerchiefs within their regular price limit. The reason? They bought and sold many millions during the year.

Most chain general merchandise and variety store companies have no interest in buying a carload of this or a few hundred cases of that. Essential in most companies is that manufacturers shall be able to keep a continuing flow coming to stores.

And, strangely, though a substantial number of chain store buyers spend a large part of their time aiding American manufacturers to find ways and means of reducing their costs of production, profitably, the majority of chain store companies do no manufacturing themselves.

While, in some cases, as stated, the manufacturer's entire production may go to chain stores, this, nevertheless, is entirely fortuitous for most chain stores believe that it is contrary to the manufacturer's own best interest to contract to sell his entire output to a single organization. Companies believe, moreover, that if their buyers agree to take John Doe's entire production of, say, children's table sets in stainless steel, only a brief period may elapse before John Blank may discover a method of turning out an equally desirable child's table set in stainless steel, profitably, at a lower price, to the consumer's benefit. So, generally speaking, chain store buyers, in the interest both of American manufacturers and of American consumers, refrain from unnecessarily contracting their companies exclusively to certain manufacturers.

NEW ITEMS FOR AMERICAN CONSUMERS

In the matter of general chain store policy in adding new items, grocery chains, as a rule, have endeavored to add as few new items as possible to avoid duplication and the building up of a large stock in each store. On

DOES THE CONSUMER SAVE MONEY IN CHAIN STORES?

CITY	NUMBER OF STORES STUDIED	NUMBER OF ARTICLES COMPARED	AVERAGE SAVING IN CHAIN STORES
Albuquerque, N. M.	14	30	9.6%
Atlanta, Ga.	88	60	8.8%
Champaign-Urbana, Ill. (a)	84	61	8.4% — 11.5%
Champaign-Urbana, Ill. (b)	110	66	6.5%
Chicago, Ill.	319 Ind. 4 Chain Cos.	75	9.3% — 11.4%
Durham, N. C. (a)	86	60	13.8%
Durham, N. C. (b)	79	60	11.0%
Lexington, Ky.	44 Ind. 5 Chain Cos.	58	14.3%
Minneapolis-St. Paul, Minn.	Not specified	Not specified	10.7%
Minneapolis-St. Paul, Minn.	Not specified	Not specified	7.8%
Minneapolis-St. Paul, Minn.	48	21	5.8%
Minneapolis-St. Paul, Minn.	44	21	4.9%
New York, N. Y.	1,022	50	2.6%
Metropolitan New York	95	48	8.5%
Cánastota, Canzenovia,	Not specified	52 (1930)	12.8%
Earlville, Hamilton,	Not specified	52 (1934)	10.0%
Sherburne, N. Y.	Not specified	52 (1938)	7.9%
Poughkeepsie, N. Y.	168	10	0 — 16.7%

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the other hand, general merchandise chains, particularly the "five and tens", have gone to great expense to develop new items that are likely to command consumer popularity. Many companies, in fact, keep experts both in this country and abroad whose business it is to find and develop products salable in chain stores.

Most chain store companies have adopted definite plans for testing the successful sale of all new items bought in any quantity. One company's stores, for example, are divided into districts, each having stores known as "test stores." Each item which the company contemplates buying is put in these "test stores" for a three-week period. If the public reacts favorably to the new goods, purchases are made for the company at large; if goods fail to meet the test, the items are dropped, for chain store companies, as shown, are the servants of 130 million American consumers. They vend only what consumers need and want — at prices that they can afford to pay.

FASHION MERCHANDISE IN CHAIN STORES

Styles and fashions originating in the fashion centers of America and abroad are brought to the early attention of chain store buyers. If it seems likely that these new creations will gain public favor, and if they can be produced to sell at prices within the means of chain store customers, chain stores give them wide distribution throughout the cities and towns of the country, thereby making it possible for the masses to have the early benefit of new styles and new fashions. In women's wearing apparel, and in accessories such as jewelry and toilet articles, for example, the style and fashion service that has been provided to America by the chain store has been especially noteworthy.

STANDARD BRANDS IN CHAIN STORES

It has long been recognized that one of the strongest points in chain store merchandising, however, is their featuring of standard merchandise. Chains, for the most part, feature high quality articles — items which the public knows to be standard merchandise — at economical prices. Many of these standard brands require a minimum of sales service because their market has already been prepared by the manufacturer through national advertising and the merchandise, as result, is generally known to the public.

Some chain store companies carry in their stock assortments, a high proportion of nationally-advertised brands. It is said, for example, that the Great Atlantic & Pacific Tea Co. carries less than one-quarter of its stock in private brands.

On the other hand, some chain companies extensively develop articles bearing company brands, securing for them, through substantial advertising, a consumer acceptance similar to that enjoyed by the nationally-advertised brands that are sold generally in retail stores. J. C. Penney Co., for instance, annually spends a large sum in advertising in order to popularize merchandise bearing its own name.

In many lines of merchandise, the Penney Company has developed trademarks and brands that are well-known throughout the country. A substantial percentage of the merchandise handled in Penney stores carries Penney brands or the Penney label. Penney overalls are case in point. This policy has enabled the Penney Company to establish a reputation for quality standards, similar to those of widely-advertised national brands.

Other chains, as for example, W. T. Grant Co., follow policies similar to the Penney Co. in securing more and more business for its own well-advertised, trademarked items.

CHAINS ELIMINATE DELIVERY COST

It has already been pointed out that chain stores effect savings for consumers by selling, substantially, for cash. A comparable saving has been effected by chain stores through their general elimination of delivery service.

It is a costly matter for a store to deliver goods direct to the home. These costs include the operation of trucks, licenses, taxes, insurance, interest and other expenses.

In a survey completed by the Department of Commerce in the Spring of 1930, it was found that in 4 typical cities of the Middlewest, independent grocers expended about 9 cents for each order delivered. For twelve stores in the city of Louisville, the cost of delivery, per-order, ranged from 4 to 20 cents on the dollar. The average order was \$1.34, making the cost of delivery service, roughly, 7% of the value of the sale.

This is a costly item of expense and, for most merchandise purchased, is clearly contrary to the welfare of the average-income classes in the United States — the classes which cannot afford to decrease their purchasing power by wasteful expenditures.

And yet, in lines of merchandise in which delivery service is considered an essential or desirable part of efficient operation, chain stores do, willingly and wholeheartedly, provide such service. Consider, for example, the following facts provided by the Federal Trade Commission in this connection.²

Note ² *Reference Source*: United States Senate Document 91, 73rd Congress, 2nd Session.

TABLE

Kind of Chain Stores	Proportion of Stores Having No Delivery Service	Proportion of Sales Delivered Free to Total Sales of Chain Stores With and Without Free Delivery Service
Furniture	1.2%	99.8%
Department Stores	37.6%	38.8%
Hardware	10.8%	38.7%
Men's and Women's Apparel	39.4%	23.8%
General Merchandise	38.2%	24.8%
Millinery	34.2%	26.5%
Women's Shoes	48.2%	7.4%
Men's Apparel	60.8%	24.7%
Women's Apparel	37.3%	24.5%
Drug	51.0%	3.2%
Grocery	57.0%	17.0%
Grocery and Meat	93.1%	1.7%

CHAINS ARE SUBSTANTIAL ADVERTISERS

Chain stores, early in their period of expansion, recognized the importance of good publicity and have devoted the greatest attention to their advertising. Their advertisements today are conceived and executed as important parts of constructive selling campaigns by some of the outstanding advertising specialists in the country.

The old saying "It pays to advertise," trite as it may be, evidently contains a world of truth. It seems that the American people are peculiarly susceptible to the suggestive power of advertising, for evidently they purchase the most products from companies which do the greatest amount of advertising. The fact that chains are large advertisers has considerably accelerated the pace of their progress.

During the year 1937, according to an industrywide survey of 138 representative chain store companies, of all types, of all sizes, jointly conducted in 1938 by Institute of Distribution, Inc. and by the national associations of food, shoe and drug chains, it was found that total advertising expenditures of reporting companies were \$55,664,271. This averaged 1.64% of the sales of reporting companies and averaged \$1,754 per-store.

The survey was certified by the public accounting firm of Peat, Marwick, Mitchell & Co. The 138 companies operated 33,000 stores and had sales in 1937 aggregating 3½ billion dollars.

It is interesting to note that reports on advertising expenditures by type of media found newspapers far in the lead with 57.91% of the total. Cost of handbills and similar printed matter, much of which is produced in local newspaper job printing offices, totalled 9.26%. Radio advertising

THE CHAIN STORE TELLS ITS STORY

claimed 4.30% of the total and the remaining 28.53% went for miscellaneous media.

Drug store chains reported that 82.24% of their total advertising costs went to newspapers. For grocery chains the figure was 56.53% and for the companies operating other kinds of chain stores, including general merchandise, variety, shoe, auto accessory, restaurants and other types of companies, it was 51.35%.

MILLIONS SPENT IN ADVERTISING

Bear in mind that the foregoing \$55,664,271 represents the advertising expenditure only of reporting companies in this 138 company survey. Institute of Distribution, Inc. estimates, meantime, that chain stores in America, of all sizes, of all types, annually expend \$141,000,000 in advertising of all kinds.

By reaching the mass buying power of America with advertised values, chain stores not only benefit consumers but likewise popularize the products of American manufacturers and producers thereby stimulating national prosperity and keeping the wheels of American progress turning.

In four recent years, moreover, Sears, Roebuck & Co., America's Number 1 newspaper advertiser, alone, has invested an aggregate of \$40,742,802 in newspaper space. The 1936 newspaper advertising expenditures of Sears, Roebuck & Co. amounted to \$10,548,877. It was spent in 863 newspapers located in 44 of the states in which the company has stores and represented an increase of 8.2% over the total amount spent for advertising by that company in 1935. In 1937, the Sears' newspaper advertising expenditures mounted again, jumping to \$11,261,763 — representing a rise of 6.8% over the 1936 figure. This huge sum in 1937 was spent for advertising in 880 newspapers in 47 states and in the District of Columbia.

Moreover, a survey by the National Association of Food Chains of 33 representative chain grocery store companies doing about 65.9% of the chain food sales of the nation in 1937, showed that these 33 companies expended a total of \$16,905,404 in advertising of all types in 1937, or 1.1% more than in 1936. The bulk of that advertising was done in the nation's newspapers.

Safeway Stores, for example, spent 78 cents of every one of its advertising dollars in newspapers. It is interesting to note, furthermore, that the Kroger Grocery and Baking Company uses display space in more than 1000 newspapers in the Middle West.

STIMULATING AMERICAN PROSPERITY

In some fields, chain store advertising in newspapers exceeds the total amount done by individual retailers throughout the United States. This fact, of course, is all the more striking because there are almost ten times

as many independent stores in the United States as there are chain stores. In St. Louis, Mo., for instance, it was found, several years ago, that 78% of all the food advertising was done by chains; in Reading, Pa., the amount was 70%; in Springfield, Mass., it was 54%.

Chain store advertising has doubtless increased consumer interest in the newspaper advertising columns. To such an extent has it done this that a number of national advertisers prefer a position on the same page with such chain store advertisements. In this connection, the following by H. B. LeQuatte, president of Churchill-Hall, Inc., is significant:

"I believe that chain store advertising — with its atmosphere of news and timeliness — has done much to stimulate consumer interest in the newspaper advertising columns. We have found it frequently advantageous to place our copy near or next to chain store advertising, thereby sharing in the reader interest which this advertising has established."

The Great Atlantic & Pacific Tea Co., in 1933, alone, spent six million dollars for newspaper advertising, representing the equivalent of \$400 per-unit. This, of course, does not include the substantial sums paid by the A. & P., in the same year, for advertising in other media.

SCIENTIFIC MANAGEMENT STRESSED BY CHAINS

A store cannot move stock from its shelves merely by offering consumers more economical prices than its competitors. Back of the chains' well-established reputation for rapid turnover is scientific management which, in the final analysis, controls the stock.

Stock turnover is facilitated by frequent inventories, by handling the right kind of merchandise, and by perfected cost-accounting. These scientific measures, common among all chains, enable them to reduce the insidious wastes of business to a minimum.

Through central accounting departments, most chain companies have established systems of record keeping that enable both store managers and company executives to have available, at all times, the necessary facts about the condition of the business. One of the great causes of failure among retailers, generally, is the lack of definite knowledge on mark-ups, operating expense, merchandise investment and the other operating essentials of a successful business. From the experience of many stores, modern-day chain stores have evolved accounting systems that supply this information both with a minimum of record keeping and with a minimum of red tape.

In most companies, traffic departments see to it that merchandise is shipped to stores with the least possible expense. A continuous study is made of shipments in order to hasten deliveries and to arrange for the most economical routes. While certain items are warehoused to save transportation on small shipments and to enable thorough inspection, much of the heavier merchandise is shipped directly from mills and factories to chain units.

One problem of a chain is to ascertain whether the goods shipped directly by the manufacturer to the various units are identical with the sample from which the buyers made their purchase in Bluffton, Indiana; in Burley, Idaho or in other company headquarter points. An intensive system of inspection, which is part of the routine in most chain store units aims to keep substitutes at a minimum. Occasionally, specimen items received at the stores are even shipped to company headquarters where the buyers and the laboratories ascertain whether or not they are up to specifications.

Considerable attention in recent years has also been given by chain stores to the necessity of cutting down handling and transportation costs. As a result, an increased number of orders today, are going from respective company units directly to sources-of-supply; more shipments are being made directly from factories to respective stores. The percentage of "source" merchandise in chain store units is steadily increasing thereby saving the expense of warehousing and transshipping.

And here we present an interesting sidelight demonstrating the extent to which chain stores concentrate on simplification and standardization in order to bring increased values to consumers.

At a convention several years ago, department stores exhibited the tags they use in pricing goods, and it was noted that in several establishments simplification and standardization had cut the number of types of price tags to just under 200.

It is reported, meantime, that the entire Sears, Roebuck retail division, doing about four times the volume of the largest single department store in the United States, uses only 35 different types of tickets, although their "A" stores carry up to 25,000 items. From 80 to 90 percent of the tags are machine printed. Hand-written tags are kept to a minimum. The comprehensive Sears' employees manual tells what information goes on each ticket and where thereon.

NO GUESSWORK IN LOCATING UNITS

Another important factor in the progress of the chain store in the United States has been its scientific approach to the problem of locating stores.

Most of the companies have well-trained, experienced real estate departments. What they require in a community, which localities are most suitable for their type of store, the true and prospective value of these locations are all approached through careful analysis. As a result of these analyses, chain store companies are able to measure the strength and weakness of sites and pretty closely to determine whether or not they can merchandise in them with benefit to the community and profit to themselves.

These companies, furthermore, have carefully studied the consumer — his habits, his likes, his dislikes — and have located their stores accordingly.

As we have seen, the United Cigar Stores Co. was a pioneer in determining the most effective spot for a store in its field. This company realized that street cars, subways and other public transportation vehicles stop on the corner and not in the middle of the block. It recognized that a consumer would be more likely to buy his cigar while waiting for the evening trolley or bus than when he was hurrying to work in the morning. Accordingly, the company has profitably permitted its survey finding to guide the locating of its new units.

A great many of the apparel stores failed on the sunny side of the street before the J. C. Penney Co. found that women would rather shop in the shade. It cost the F. W. Woolworth Co. thousands of dollars to find out whether people turned to the right or to the left after they entered a store. The use of these and similar scientific methods has unquestionably done much to stimulate the progress of chain stores in America.

Most companies today are following the plan of leasing rather than buying buildings, and their preference has evidently been for leases covering a limited number of years with renewal options, rather than for long terms. The advantage of such a plan was evidently made clear by the conditions that existed in the retail business during the period from 1929 through 1933.

Stores are generally equipped by company construction departments. The attempt is made, based on a great deal of experience, to set up store layouts that are convenient for the customer and economical in company operation. While the stores vary greatly in size and in volume in different communities, chain store units are pretty generally alike in creating a friendly atmosphere that while attractive, nevertheless is neither ornate nor over-elaborate.

DEPENDENCE ON EFFICIENT MAN-POWER

In the progress of chain store companies since their infancy, high-grade personnel has played a major role. The growth of chain store companies has substantially depended upon how quickly and how successfully companies were able to choose and train able employees to operate their units, effectively. Chain store executives willingly admit that the task of selecting promising young men and developing them into able retailers is and has always been one of the most important predicates to successful chain store operation.

Accordingly, men are not in chain stores employed as managers but as salesmen or stockmen or so-called "trainees" with the possibility of becoming managers through demonstrated ability.

Except in companies having store training directors — a practice uncommon in most chain store fields — training is generally carried on under the guidance of store managers with the help, and under the supervision, of training or personnel departments at headquarters.

Merchandise manuals and other informative material are prepared by company specialists at general headquarters and are widely used in providing a better training for company employees. Store meetings and group meetings are also an integral part of the educational program of most companies. Perhaps the most important factor in moulding the store executives and company leaders of the future, however, is the intelligent guidance provided to "trainees" by store managers and the leadership of managers in developing the character, merchandising ability and familiarity with company policies and methods of the men under their supervision.

Promotion from the ranks is applied by most companies right down the line. Stock clerks rise to be managers of small stores, to be managers of bigger stores, to be managers of the biggest. Sometimes they jump off this ladder into the "control" organization which may either be general headquarters in some companies or district offices in others. The latter in companies having them, are headed by district managers each with a staff of inspectors who keep a close check on the inventory and business of each store in the districts coming within their jurisdiction.

TRAINING MAKES CRACK MERCHANTS

The policy of many representative chain store companies is to select for store management, men who by experience, training and personality, fit the individual location. These men, if successful, are not, in such companies, transferred unless there is an opportunity for advancement. As a result, these managers, as a group, are active and interested workers in the community life. The majority of them belong to the service clubs of their community and participate in the work of the Chambers of Commerce and of other civic groups. The stores contribute, both from their funds and through the services of their managers, to movements which benefit the life of the entire community and which work for the well-being of all of its citizens.

It is important to note here that in a recent survey conducted by the National Association of Food Chains, covering 33 representative chain grocery companies and 23,889 store managers, it was found that 61 percent of all managers and over 63 percent of the managers of the oldest companies had served their companies, in the same city, for more than 5 years. The same survey found that 77.7 percent of all employees had lived over 5 years in the community in which they were located, in 1937.

And an Institute of Distribution, Inc. survey provided equally conclusive findings for non-grocery chain store company store executives in both of the foregoing connections.

In general, then, chain store companies have followed the plan of training men as merchants rather than attempting to merchandise stores from a central headquarters. However, the growth and development of respective companies through the years have naturally been accompanied

by the development of central organizations suited to the needs of the large group of local units in operation.

One great advantage of the chain store plan of merchandising lies in the facilities afforded for practical research and for the study of retailing. Representative companies have available detailed, cumulative information regarding customer needs and wants. These records serve to guide the individual manager in his choice of merchandise. Then, too, the information that has been accumulated regarding each town and its business conditions and opportunities removes in chain stores much of the hazard that confronts the merchant who opens a store of his own without benefit of such data.

It would not be unfair, therefore, to think of chain store companies as great training schools for merchants. In their stores, young men interested in merchandising as a life work are shown methods that have been proved practical. They have a chance to profit from the experience of thousands of others without the perils of trial and error that confront the merchant who, with limited capital and with limited experience and facilities, enters the retail business.

The genuine contribution of chain store companies to the retail life of this country can be checked in numerous communities. Many towns have gained a new standing as trading centers and have seen their Main Streets quickly improve as a result of the advent of chain stores.

Countless times, chain store companies have been petitioned by communities to locate stores so that the people there might enjoy the benefits of their values, services, conveniences. Countless times, local civic bodies have acted to see that locations were made available in order that chain store companies might move in and strengthen their shopping centers and benefit their home folk. This point is typically illustrated by the following item from the September 5, 1938 issue of the Soquel (Calif.) Journal:

"What this district needs more than anything else is a chain store. And what is more to the point, this newspaper is going to try and get one.

"A chain grocery store would bring more business into the Soquel, Capitola and Aptos area. Our people would not go elsewhere so often to trade. Selection would be better for buyers. Cash and carry prices would be a lure to bring people here from miles around. . . .

"Competition helps business. The chain store would make better and more prosperous business conditions for us all."

DOES THE CONSUMER SAVE MONEY IN CHAIN STORES?

CITY	NUMBER OF STORES STUDIED		NUMBER OF ARTICLES COMPARED		AVERAGE SAVING IN CHAIN STORES	
	<i>Food</i>	<i>Drug</i>	<i>Food</i>	<i>Drug</i>	<i>Food</i>	<i>Drug</i>
Cincinnati	608	262	120	268	8.1-9%	16.9%
Detroit	2264	534	183	256	9.5%	14.9%
Memphis	437	171	193	212	7.7%	17.1%
Washington, D. C.	570	180	274	226	6.0%	18.5%

REFERENCE

Federal Trade Commission chain store inquiry, "Prices and Margins of Chains and Independent Distributors."

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CINCINNATI: Senate Documents No. 88 and 95, 73rd Congress, 2nd Session.

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DETROIT, Senate Documents No. 81 and 96, 73rd Congress, 2nd Session.

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MEMPHIS: Senate Document No. 69, 73rd Congress 1st Session, and Senate Document No. 97, 73rd Congress, 2nd Session.

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WASHINGTON, D. C.: Senate Document No. 62, 73rd Congress, 1st Session and Senate Document No. 98, 73rd Congress, 2nd Session.

PART II

Chain Store Progress: Its Meaning to Consumers

Chain stores recognized long ago that in order successfully to fulfill the objectives of quick turnover and small profit on large sales volumes, they had to eliminate every wasteful process. Accordingly, as direct outcome of their concentration on buying merchandise scientifically and effectively, in large quantities, for cash, mainly from the source rather than through middlemen, and because they have generally specialized in standard brands which they have advertised extensively, they have succeeded in reducing, to the very bone, the retail prices which consumers must pay for well-selected, reliable merchandise. As result, American consumers have given chain stores widespread and continued patronage.

Surely, if they had not succeeded in demonstrating to consumers that their retail prices are lower, chain stores could not have maintained their present healthy business condition in the face of violent opposition from many different sources. Even when anti-chain store agitation was most active, people, on finding that the slogan "Save By Buying At Chain Stores" was not merely an advertising catch-phrase or a newly-created myth that would explode at the first test, not only patronized chain stores, substantially, but came from far and near to benefit from their values, services and conveniences.

HOUSEWIFE FINDS CHAIN PRICES LOWER

The American housewife — who does 80% of the family's purchasing — has an uncanny way of finding out where the best values may be obtained. That she had found retail prices in chain stores lowest and, consequently, that she is substantially patronizing such retail stores, is manifested by the testimony of the strong sales records of chain stores.

In a study that was undertaken by Professor Paul D. Converse of the University of Illinois, in Champaign-Urbana, Ill., in order to determine the buying habits of the city's population, it was found, for example, that 55.4% of the consumers questioned were trading in chain stores because retail prices in such stores, for quality products, were substantially lower.³

Another study conducted in Albuquerque, N. M., by Miss Myrtle Rush of the University of New Mexico, disclosed that of the 99 housewives interviewed by the investigators, 70 patronized chain stores for 3 important reasons.⁴ Surveyed Albuquerque consumers pointed out, first, that by trading in chain stores, they could save at least ten cents on every dollar. The fact that chain store units are located conveniently and are

Note ³ *Reference Source:* Prices and Services in Chain and Independent Stores in Champaign-Urbana, Ill., Journal of Marketing, January, 1938.

⁴ *Reference Source:* Study of Chain Grocery Stores in Albuquerque, N. M., University of New Mexico, 1931.

sanitary and attractive, was the second reason advanced for patronizing chain units by these 70 housewives. The third reason given by the surveyed consumers was that chain stores generally demand cash, thereby reducing the temptation of placing themselves into debt.

Miss Rush's findings in Albuquerque exactly parallel those reported for Chicago in a recent survey made there by the Marketing Department of De Paul University. Two-thirds of the 10,314 families interviewed said that they made half or more of their food purchases at chain stores. The reasons they assigned for this preference, in the order of their importance, were: (1) money-saving prices; (2) convenient location; (3) quality of goods; (4) complete stocks.

In a similar survey recently conducted in Ogden, Utah, under the direction of Professor A. R. Johnson of Brigham Young University, 41.5% of approximately 3,600 interviewed families said they made the bulk of their food purchases at chain stores and assigned the following reasons for their choice: (1) money-saving prices; (2) superior service; (3) convenient location; (4) quality of goods.

CONSUMERS BENEFITED BY CHAINS

A study was recently made by an unbiased research agency on consumer preference in retail establishments in the four widely-scattered communities of Keene, N. H.; Newburgh, N. Y.; Lima, Ohio and Roxboro, N. C.⁵

An experienced staff of investigators visited the homes of 2,000 families covering nearly 10,000 consumers in the \$2,500-a-year-or-less-group. Through a carefully-made, door-to-door survey, these trained men sought to determine the shopping preferences of these families and to find out whether the surveyed consumers actually approve of chain store distribution in terms of price, quality of merchandise, service, etc. The results speak for themselves.

Almost 60% of the two thousand families interviewed recorded that they buy at least 50% of their necessities of life in chain stores. It is interesting to note that almost 90% of these chain store customers expressed conviction that merchandise bought in chain stores, though definitely more economical is, nevertheless, equal or better in quality than merchandise purchased in other retail outlets in the communities in which they reside.

Almost 30% of the 2,000 families interviewed in these four typical, widely-scattered communities recorded that they find service in the chain stores of their towns more prompt, more efficient and more courteous than in competing establishments. More than 60% said they found in chain stores, as courteous, efficient, neighborly service as in the other retail outlets of the community. Only 6% of the local residents interviewed held

Note ⁵ Study made by Walter Mann & Staff for Institute of Distribution, Inc.

that chain store service is less efficient, less prompt and less courteous than that available elsewhere. Four percent of the consumers surveyed did not comment on this particular subject.⁶

The outstanding preference for chain food and grocery stores by the housewives of this country is all the more remarkable when it is recalled that individually-owned food stores outnumber chain food stores by more than 7 to 1.

MIDDLETOWN CONSUMERS FAVOR CHAINS

One of the most recent surveys of the buying habits of the women of this country and their viewpoint on the contribution of the chain store, is that made between September, 1937 and April, 1938 in Muncie, Indiana by Zelda Holsinger.⁷ The results of her study are reported in the December, 1938 issue of the *Journal of Retailing*, published by New York University.

Answers to a questionnaire were obtained from 630 women in the community. Through churches, schools, clubs, sororities and organizations of all kinds, questionnaires were submitted to single and married women whose ages ranged from 18 to 62. Four hundred and eighty-six married women and one-hundred and forty-four single women returned them. Not all of the questionnaires, however, were fully answered.

It is interesting to note that of those who answered the question about occupations, 238 stated that they were housewives, 79 teachers, 44 office workers, and 38 reported miscellaneous occupations.

Three tables are presented below to demonstrate survey conclusions in point:

TABLE A

Type (Food)	More Buying Than Formerly	No Change in Amount of Patronage	Votes Received	Per Cent of Increase to Total Buying in Each Group
Chains (5 stores)	558	445	1,003	55
Independents (15 stores)	170	113	283	60
Voluntary chains (3 stores)	298	204	502	59

Note ⁶ Roxboro's city manager told Walter Mann investigators when this survey was made that chain stores (a) prevent Roxboro trade from going to nearby cities; (b) they bring trade to Roxboro that would otherwise go out-of-town; (c) they not only offer a greater variety of merchandise at considerably lower prices, but that they have stimulated the stabilizing of retail prices in *all* of Roxboro's retail stores.

⁷ Muncie is well-known to millions of Americans as Middletown. Here, several impartial guinea pig surveys have been made of the buying habits and preferences of Muncie residents.

THE CHAIN STORE TELLS ITS STORY

TABLE B

Type (Wearing Apparel)	More Buying Than Formerly	No Change in Amount of Patronage	Votes Received	Per Cent of Increase to Total Buying in Each Group
Chain department stores (3 stores)	480	456	936	51
Chain specialties (11 stores)	372	318	690	54
	<u>852</u>	<u>774</u>	<u>1,626</u>	<u>52</u>
Independent department stores (1 store)	183	171	354	51
Independent specialties (13 stores)	220	292	512	43
	<u>403</u>	<u>463</u>	<u>866</u>	<u>46</u>

TABLE C

Type (Housefurnishings)	More Buying Than Formerly	No Change in Amount of Patronage	Votes Received	Per Cent of Increase to Total Buying in Each Group
Chains (4 stores)	213	270	483	44
Independents (9 stores— includes department stores and regular fur- niture stores)	442	382	824	54

"The strength of apparel chains", Miss Holsinger said, "is probably due to their efficient organization, ensuring a continual flow of new merchandise to member stores, and not to monopolistic and unfair practices. The strength of independents and voluntaries in the other two fields investigated would seem to indicate that these stores need no further anti-chain legislation to maintain their competitive position."

CONSUMERS ARE PRICE CONSCIOUS

One of the most enlightening and comprehensive surveys among all of the independent, impartial studies that have been made on this subject is that recently conducted by Opinion Research Corp. for Sears, Roebuck & Company.

The number of interviews made was 2,154. The study was nation-wide, ballots being drawn from each state in proportion to the voting population of that state. Within each state, the correct balance was maintained between urban, small town and farm voters.

All age groups were represented. The sample was a trifle light on people under 30 years of age, and correspondingly heavy on people 30 to 49 years of age. Since no marked difference of opinion appeared between these age groups, however, no sampling distortion resulted.

Interviews were carefully proportioned between people of all income levels. Republicans and Democrats were included in about the same proportion as the 1936 Landon-Roosevelt vote.

The survey found that 64% of all persons interviewed claimed chain store prices are lower. On the matter of service, the vote was about even. As for quality of merchandise, the largest group of voters claimed that there is no difference between chains and independents. 55% voted against higher chain store taxes. The majority of voters said (1) that they would prefer renting property to chain stores; (2) that employees receive better treatment in chain stores and (3) that a young man has greater opportunity to profit and progress in chain stores than in other types of retail establishments.

77% said that increased chain store taxes make the cost of necessities higher to American consumers. 84% voted against crippling or destroying chain stores.

SURVEYS FIND CHAIN PRICES LOWER

The delicatessen store owner, who toils long hours, nights, Sundays, holidays, feels entitled to extra compensation for his overtime efforts. Hence, higher prices. The retail merchant who handles and delivers telephoned orders, must necessarily add the cost of such services to his prices. Result: higher retail prices.

Manifestly, storekeepers who accept charge accounts must increase their selling prices in proportion to the bookkeeping expense and to the credit losses accruing from this type of operation. Therefore, higher retail prices.

Inexperience, excessive overhead and similar considerations must likewise be equalized in higher consumer prices if the retailer is to remain in business — even temporarily. Result: higher retail prices.

In individually-owned stores where Mrs. Consumer waits on herself and where "cash and carry" is the rule, however, the resultant reduction in overhead is, naturally, reflected in lower retail prices.

In the face of the self-evident patronage of chain stores by consumers and of the statements of consumers themselves in this connection, it would seem safe to assume that lower retail prices prevail in busy, modern chain stores where buying, selling, merchandising, promotion and all other operating methods are efficiently geared to the times and where stock turnover is correspondingly rapid thereby assuring constantly fresh merchandise. There is no need, however, to assume this inasmuch as the results of specific surveys in 122 different communities provide concrete evidence

DOES THE CONSUMER SAVE MONEY IN CHAIN STORES?

— A —

Number of Drug Stores Studied: 216

Number of Articles Compared: 160

NUMBER OF FLORIDA STORES IN CHAIN	AVERAGE SAVING IN CHAIN STORES		
	Jacksonville, Miami, Tampa	Orlando, Pensacola, St. Petersburg, W. Palm Beach	44 Cities Under 25,000 Population
16 or more stores	16.1%	14.4%	10.1%
11-15 stores	8.6%	No comparisons made	No comparisons made
7-10 stores	11.0%	12.6%	11.9%
4-6 stores	13.1%	Prices 2.1% higher	8.3%
2-3 stores	1.6%	2.0%	0.8%

— B —

Number of Department and Variety Stores Studied: 117

Number of Articles Compared: 32

NUMBER OF FLORIDA STORES IN CHAIN	AVERAGE SAVING IN CHAIN STORES
16 or more stores	16.4%
11-15 stores	17.8%
7-10 stores	8.8%
4-6 stores	10.3%
2-3 stores	9.1%

REFERENCE

"The Chain Store Problem", Theodore N. Beckman and Herman C. Nolen, McGraw-Hill Book Co., 1938. (Date of Price Comparisons with Independent Stores: August, 1935.)

WHY THE CHAIN STORE HAS PROGRESSED

that average retail prices, for comparable articles of identical quality, are lower in chain stores than in competing establishments. In fact, the findings of these independent, impartial surveys show that chain store lower prices range from a fraction of 1% to as high as 24%, with a commonly-accepted average of about 10%.⁸

UNCLE SAM'S RETAIL PRICE CONCLUSIONS

Uncle Sam himself, through a million dollar, six-year investigation by the Federal Trade Commission, found that chain food and grocery prices alone were 8.1% lower, on the average, than those of independent food and grocery establishments. It was likewise found by the FTC that consumers saved 12.5% by buying in chain drug stores. Applying the results of this official investigation to the United States as a whole, American consumers — particularly those many millions of citizens who earn \$2,600-per-year-or-less, who compose 90% of our national population and who are the chain stores' principal patrons — are annually saving \$955,300,000 in chain stores.

The \$955,300,000 saved to American consumers by chain stores, every year, not only serve to raise the standard of living of these people, but also permit them to utilize these savings to purchase other needs or luxuries or insurance or any other wants. So doing by consumers, annually circulates this immense sum of \$955,300,000 among the fabricators and vendors of these desires thereby stimulating national prosperity.

CHAINS STABILIZE ALL RETAIL PRICES

And though chain stores have shaved a significant amount off the retail prices that consumers must pay on reliable goods, wares and merchandise, the lower retail prices featured in their stores do not, themselves, represent a "whole" picture of what chain stores actually save the American consumer.

Perhaps the most outstanding contribution of chain stores to the welfare of American consumers rests in the fact that chain store prices are used as an index by their competitors in establishing their own retail prices. Hence, active chain store competition has served to stabilize general retail prices in the United States and to keep them low and profits reasonable.

The chain store, then, is a boon not only to its own customers who benefit directly from its values, services and conveniences, but is a boon, likewise, to the customers of competitive enterprises even though such consumers may never enter a chain store. And this fact is interestingly demonstrated by the investigation made by experts of the University of Denver in September, 1938.

This enlightening survey compared the cost of a specified bill of groceries in 5 Colorado communities in which there were no chain stores

Note ⁸ See Tables, pp. 106, 116, 122 and 124.

DOES THE CONSUMER SAVE MONEY IN CHAIN STORES?

— C —

Number of Food Stores Studied: 533

Number of Articles Compared: 145

No. OF FLORIDA STORES IN CHAIN	AVERAGE SAVING IN CHAIN STORES				
	Jacksonville, Miami, Tampa	Orlando, Pensacola, St. Petersburg, W. Palm Beach	26 Cities No. & W. Florida Under 25,000 Population	26 Cities Central Florida Under 25,000 Population	13 Cities So. Florida Under 25,000 Population
16 or more stores	5.0%	4.1%	4.0%	3.8%	4.6%
11-15 stores	5.9%	No compar- isons made	5.8%	1.9%	2.2%
8-10 stores	4.4%	1.7%	No compar- isons made	2.2%	2.6%
2-3 stores	4.0%	2.4%	1.3%	3.1%	2.6%

— D —

Number of Auto Accessory Stores Studied: 113

Number of Articles Compared: 12

NUMBER OF FLORIDA STORES IN CHAIN	AVERAGE SAVING IN CHAIN STORES
7-10 stores	24.2%
4-6 stores	0.4%
2-3 stores	10.6%

REFERENCE

"The Chain Store Problem", Theodore N. Beckman and Herman C. Nolen, McGraw-Hill Book Co., 1938. (Date of Price Comparisons with Independent Stores: August, 1935.)

WHY THE CHAIN STORE HAS PROGRESSED

with the cost of an identical bill of groceries in 5 comparable communities wherein chain food stores were in operation.

It is important to note that in the communities in which chain food stores were in operation, the investigators found the bills' cost in individually-owned food stores as much as 7% lower than in the individually-owned stores of the communities having no chain food stores. The table below provides the findings of the survey in further detail:

TABLE
FOOD PRICING IN TYPICAL COLORADO COMMUNITIES

Number of items compared	Names of Colorado towns without chain food stores	Average cost of Bill of Goods in independent stores in towns without chains	Names of Colorado towns with chain food stores	Average cost of Bill of Goods in independent stores in towns with chains	Per cent by which total cost is lower in towns with chains
17	Akron	\$2.40	Yuma	\$2.32½	3.1%
17	Springfield	3.36	Holly	3.26	3.0%
21	Oak Creek	3.08	Steamboat Springs	3.02½	1.8%
18	Saguache	2.48	Monte Vista	2.30¼	7.2%
20	Haxtun	2.69½	Holyoke	2.68	0.6%
Average					3.1%

MULTIPLYING CONSUMER PURCHASING POWER

Perhaps the most forceful demonstration that chain stores stand out as an effective mechanism for translating commodity price declines into lower prices for the consumer came during 1932 when America was floundering in the depths of a tragic period of business depression. Evidence follows:

From reports submitted to the Capper Committee of the United States Senate which was formed to conduct an investigation of commodity prices, it was found that chain stores were, in 1932, paying 38% less for eggs than they were in 1931, but were retailing them for 44% less. Butter showed a 25% drop in wholesale cost, but the chain store retail price represented a 26% decline. Prices on meat were from 26% to 45% lower in chain stores than they were during the previous year.

By merchandising economically — effectively — chain store companies have, consequently, rendered standout retail service to American consumers, especially to those average-income consumers having annual incomes of \$2,600-a-year-and-less and which compose 90% of our population. This important contribution to the welfare of the American public has resulted in increased patronage of chain stores by consumers and has therefore resulted in the great growth and development of chain stores in America that we have viewed on parade in the previous chapter.



CHAPTER FOUR

THE CHAIN STORE LEGISLATIVE PROBLEM

No analysis of chain store development would be complete without a review of the antagonisms that it has created and which have resulted in widespread tax legislation, designed to limit or to destroy the industry.

The chain store case is by no means the first in our history where a hue and cry has been raised against economic developments which have emerged suddenly from obscurity to resounding reality. The appearance of new institutions has, each in turn, produced widespread fear that they might bring disaster to the independent retail trade. And there is no more striking example of this truth than the experience of department stores in the early days of their development in America.

DEPARTMENT STORE HELD A MENACE

In 1876, when John Wanamaker opened his "Grand Depot" in Philadelphia, it was America's first real department store and the country's first store which steadfastly embraced a "one price to all" policy in a period, as we have seen, when caveat emptor was in flower in America.

Mr. Wanamaker had no more time than to open his emporium when an alarmed Philadelphia editor denounced his enterprise as outcome of grasping and greedy spirit. Even before Mr. Wanamaker's store had time to justify its existence, it was publicly blasted for having "squelched hundreds of small dealers without compunction."

By 1895, when the modern chain store was still breaking eye teeth, the department store loomed as a menace to small enterprise. Its growth in most of the large cities of the country was so rapid as to attract both the attention and the fear of the masses of small retailers. They almost wore themselves out with the worry that these new department store ventures might swallow them up.

Efforts were made to arouse the ill-will of the public toward them. Organizations were formed to combat them. Determined attempts were made then, as they were made later against chain stores, to regulate them and to curb their progress through crippling, discriminatory legislation.

The legislative problem facing the department stores in the waning years of the Nineteenth Century became alarming. In Pennsylvania, for example, a bill was introduced providing for a total of \$100,000 in license fees to be collected from the department stores of the Commonwealth. A year later, the State of Missouri passed a law taxing the department stores \$500 on each and every classification of goods sold. In some of the Eastern States, the department store crisis was made an important issue in political campaigns.

In time, however, the bombardment ceased, the smoke cleared away, and the department store was acclaimed with approval and ultimately accepted as an improved step in merchandising. Today, the department store is considered an established American institution.

ORGANIZED AGITATION SHIFTS ELSEWHERE

The organized protest against the department store was followed by an attack on the mail-order houses, another alleged menace to the small town and to the independent merchant.

Many retailers, particularly in the smaller towns, became almost frenzied over the imagined prospect that the mail-order houses would drive them out of business. The two leading companies, namely, Montgomery Ward and Sears, Roebuck, became the coast-to-coast targets of hundreds of Chatauqua and Lyceum lecturers, particularly throughout the Southern and Middle Western sections of the country.

A motion picture theatre in a Montana municipality, as one example among many, offered free admission to any town resident who brought a mail-order catalogue. Almost daily, in this town and in hundreds of others, huge bonfires in the public square destroyed mail-order catalogues in order, local merchants said, to keep "freedom of opportunity" alive in America.

The laws of the land were invoked to curb mail-order growth in America. Politicians made issues of the mail-order houses. In their excitement, many independent retailers became victims of propagandists, demagogues and professional crusaders who were then seeking (and still are) to capitalize crowd emotion in their own interest.

Soon, however, its enemies wore themselves out and the mail-order house was accepted along with the department store.

The house-to-house salesman was next to feel the pressure of organized agitation. He, too, ultimately won his battle and was permitted to survive and to progress virtually unmolested by adverse agitation and legislation.

The sentiment aroused against the department store, the mail-order house and the house-to-house canvasser had no more than faded away, however, than the chain store found itself strenuously denounced by professional agitators and other propagandists. Almost overnight the menace of the chain store became the alpha and omega of the propagandist's dream of gaining unearned riches. His drive against chain stores beggared comparison.

BIRTH OF ANTI-CHAIN AGITATION

As early as 1922, the seeds of unfavorable public opinion were being sown by a rapidly-growing number of professional agitators who though allegedly crusading on behalf of what they said was the "vanishing small

merchant", actually had donned armor and girded loin to fight the so-called "chain store menace" for self-profit.

One well-known agitator boasted that his anti-chain store activities had returned him over \$200,000 in net profits in 1929. Another admitted that he commanded more than \$3,000 per week during the climax of his anti-chain store campaign. Investigations made by Better Business Bureaus show that at least one-half of the receipts of anti-chain store organizations in 1929 ultimately found their way into the purses of organizers and their solicitors.

The anti-chain store movement, once started, developed quickly until in 1929 there were more than 400 cities and towns throughout the United States supporting active local organizations formed to fight the so-called "chain store menace."

United States Senators, Congressmen, Judges, Governors, State Legislators, County and City officials were drawn into the ever-widening group of those who were opposed to the chain store industry. Local radio stations from coast-to-coast were impressed with the profits to be made by selling their time to the enemies of multiple-unit companies. More than 100 newspapers added their voices to this already noisy clamor.

Semi-political, semi-commercial organizations banded together individual retailers and conducted an energetic social and political campaign against chain stores.

PART I

The Development of Anti-Chain Store Legislation (1925 to 1930)

Agitation became so extensive that, as such things usually do, it soon manifested itself in legislation.

Politically-powerful chain store enemies used every possible weapon and subterfuge to influence the various state legislatures to harass chain stores with special taxation. These professional propagandists were urging the legislatures of the nation to levy on chain stores, taxes of such exorbitant provisions that chain stores, they argued, would be unable to absorb them and would, accordingly, be forced to pass them on to consumers in higher prices thereby equalizing retail price opportunity for small merchants and safeguarding their existence.

ANTI-CHAIN LEGISLATION EXPANDS

Anti-chain store legislative efforts, once started, were widely pushed by professional agitators. In 1925 — an "odd" number year, therefore a year when 44 general assemblies sat in regular session — only two legislatures considered anti-chain store measures. In both, the proposals failed.

The next year, 1926, only one special chain store tax measure was proposed in the 9 legislatures that sat in regular session. It failed.

In 1927, however, thirteen anti-chain store bills were considered, three of which reached the status of law thereby imposing special, discriminatory taxes on chain stores while leaving chain store competitors free of such levies.¹

It must be recognized at the outset that the so-called "chain store tax" was a social rather than a fiscal measure. The early history of chain store taxation in America is conclusive on three points:

1. That the impulse behind the enactment of all such laws was the purpose of the business competitor; a certain class of jobber, broker and wholesaler; the political agitator and the professional propagandist to cripple or to destroy the chain store through discriminatory taxation for self gain.
2. That such laws produced incidental rather than substantial amounts of governmental revenue.
3. That to have increased the rates of discriminatory chain store taxes to a point where they would have raised sufficient revenue to have a substantial relation to the fiscal problem of any state would have been to destroy the very existence of chain stores in that state thereby defeating any genuine fiscal objective.

Two special chain store tax statutes were enacted in 1928 though only 5 such legislative proposals were considered that year. And as anti-chain store agitation continued to develop in America, anti-chain store measures introduced in 24 general assemblies in 1929 mounted to 62, representing an increase of 377% over 1927 and 1140% over 1928.

Of these 62 proposals, only three became law. One, the Indiana Graduated License Tax Law — a statute destined to play a featured role in our discussion — was declared unconstitutional by the Three-Judge Federal District Court of Indiana. This decision served to throw doubt upon the constitutionality of such legislation and aided, momentarily, in checking the enactment of such laws. But even temporary setback was no discouragement to determined proponents.

Note ¹ The first anti-chain store tax statute was enacted in Maryland in 1927 and established an outright refusal to permit the existence in Maryland of any chain having more than a prescribed number of units. The law was declared unconstitutional (*Keystone Grocery & Tea Co. vs. Huster, Allegany County Circuit Court, April 21, 1928*).

PART II

State Anti-Chain Store Taxation
(1930 to 1931)

More than 80 bills seeking to levy chain store taxes were considered in state legislatures in 1930. A new graduated chain store license tax law passed in South Carolina to replace a previously invalidated statute. And a trend in anti-chain store tax legislation of substantial significance must be noted here.

Up to this time, the only chain store tax laws enacted by legislatures levied taxes either of the fixed or of the graduated license tax variety.² In 1930, however, a new type of law was introduced into chain store taxation — the graduated gross sales tax. Such a law was first enacted in Kentucky. Another law levying special taxes on chain stores which, though not strictly of the graduated gross sales tax family, nevertheless, imposed taxes predicated upon sales was ratified in Mississippi during this year.

NEW TAX PRINCIPLES ORIGINATED

Kentucky's law, instead of taxing each store as a unit required the sales of all stores of respective companies to be grouped. It then taxed the total sales of respective companies at a rate progressing from 1/20 of 1% tax on sales of \$400,000 or less to a flat 1% on all sales of respective companies exceeding a million dollars. The legality of the law was challenged by chain stores in the courts.

In seeking relief in the courts from the shackling burdens of graduated taxation on annual sales, chain stores looked upon the litigation of the Kentucky Law as a "test" case in much the same way as the Indiana case coincidentally served them as a "test" case in determining the constitutionality of chain store taxation through graduated license tax fees.

The Mississippi Law, subsequently repealed, provided for a privilege tax under which those who engaged in the retail sale of any tangible property whatsoever were taxed the equivalent of $\frac{1}{4}$ of 1% of their annual gross income. Where a single firm or corporation operated more than five stores in the state, an *additional* tax was levied equivalent to $\frac{1}{4}$ of 1% of gross income. In other words, a chain operating five or more stores in

Note ² A "fixed" chain store tax law prescribed a specified levy and imposed that levy on each chain store unit. Individually-owned stores were exempted from its provisions. This special fixed tax was imposed on chains in addition to all other taxes. A "graduated license tax", meanwhile, either prescribes a low rate on a single store or exempts the first store entirely, then increases the tax progressively as the number of stores in a given chain increases, to wit: \$3 for the first store; \$10 per store on 2 to 5 stores; \$20 per store on 6 to 10 stores, etc. This tax, too is additional to all others to which chain stores are subject.

Mississippi was taxed $\frac{1}{2}$ of 1% of its gross income rather than at the rate of $\frac{1}{4}$ of 1% like its competitors.

NINE CHAIN LAWS IN 1931

By 1931, just six years after the first legislative effort had been made to single chain stores out for special taxation, statutes providing for punitive chain store tax laws had been enacted in nine state legislatures, namely, Georgia, Indiana, Kentucky, Maryland, Mississippi, North Carolina, South Carolina, Virginia and Wisconsin. Three of these, however, had been invalidated.

Thus, on January 1, 1931, special chain store tax laws existed only in Indiana, Kentucky, Mississippi, North Carolina, South Carolina and Virginia and the legality of each was being contested in the law courts.

PART III

State Anti-Chain Store Taxation (January to May 1931)

By 1931, economic depression had dealt a telling blow on the treasuries of our various states. Tax systems, once productive, began to crack under the weight of economic distress engulfing the whole world.

Farm and agriculture, formerly dependable tax sources, no longer could be relied upon by state governments for adequate revenue. Real estate, which had borne the brunt of taxation in most states during prosperity, had sunk by 1931 to a level of distress. Unemployment and wage cuts played such havoc on personal incomes that in most states requiring personal income taxes of residents, revenue derived from such sources became miserably inadequate. State funds derived from net income tax laws on corporations decreased substantially as industry and commerce, under existing business conditions, looked upon net profits merely as a pleasant memory.

In these circumstances, the legislative purpose of special chain store taxation altered, too. Though prior legislative efforts to tax chain stores had primarily been punitive in intent with the revenue factor a minor one, many General Assemblies were, in this period, compelled by need to regard the chain store tax as more than a punitive or regulatory measure.

Accordingly, subsequent efforts to tax chain stores embraced a two-fold purpose, namely, (1) to procure additional revenue from chain stores which they had been led to believe were affluent sources, and . . . (2) to satisfy the pressing demands of politically-powerful groups by "walloping" the foregoing sources through special taxes.

Despite the avalanche of chain store tax proposals introduced up to May in 1931, however, none had passed as of that month. Competent

observers credit three reasons as responsible for the failure of legislatures to enact new special tax laws in 1931 as of May of that year, namely, (1) the judgment and conservatism of the average state legislator, (2) the intelligently organized protest of chain stores themselves, and . . . (3) the lack of a legal precedent by the various convened General Assemblies for classifying chain stores for special taxation.

When in May, 1931 the Supreme Court of the United States, in a five to four decision sustained the legality of the Indiana graduated license tax, however, the last and most potent of these restraints was in one fell swoop eliminated.³ And to see our subject whole and understand it fully, it is necessary to pause here and review the history and significance of this important case.

PART IV

The Great Significance of the Indiana Decision

The Indiana Law, we have seen, was passed by the General Assembly in 1929. While it was one of the few bills disguised as a revenue measure in that early stage of anti-chain store legislation, it had its origin almost entirely in antagonism to chain stores. Its author, Curtis Bennett of Dillsboro, was (and may still be) a travelling salesman for a Cincinnati coffee house selling to independent grocers. His admitted intention was to "hamstring" chain stores through discriminatory taxation.

That it was conceived as a punitive stroke against the chains is confirmed by the high schedule of license fees in the original bill. It provided for the uncommonly high top fee of \$150 for each store. The bill was later amended, however, to provide for a graduated license tax on chain stores with rates ranging from \$3 to \$25 per store.

Regardless of the rendered opinion of the Attorney General of Indiana that the bill, if enacted, would be declared unconstitutional by the courts, the proposal commanded general support in the legislature on the theory that it would be popular with the "folks back home." Accordingly, it passed.

The statute, by its definition, placed every store or stores under the same ownership in the same class, regardless of the commodity of merchandise dealt in, and then fixed as the basis of taxation, solely the number of locations or separate stores within one ownership. This created a distinction between businesses of the same character and nature and was predicated upon the incident of multiple ownership. The same store could be taxed at one rate if its owner was a one store person, but at an entirely different rate if its owner was a 20 store person.

Note ³ The Supreme Court's opinion is reported in *State Board of Tax Comm. vs. Jackson* 283 U. S. 527.

No sooner had the Indiana tax measure become law than chain store companies operating in the state led by the late Lafayette A. Jackson, owner of the Standard Grocery Co. of Indianapolis sought permanently to enjoin its enforcement in an action brought before the Three-Judge Federal District Court for the Southern Judicial District of Indiana. After weighing the evidence, the court held that the law denied chain stores the equal protection guaranteed by the Federal and State Constitutions and declared it illegal. The State, however, brought the case on appeal to the Supreme Court of the United States.

Hence, the Indiana case became more than just an effort by a legislature to levy a tax on merchants operating within its jurisdiction. It became a "test" case to determine whether merchants operating stores in two or more locations within a trading area could legally be singled out by a legislature to bear special taxation of the graduated license tax variety. Those opposed to chain stores recognized that if a legal precedent for chain store taxation was provided by the Supreme Court, their opportunities for retarding the continued development of chain stores would become progressively formidable. By the same token, they recognized that an unfavorable court decision would have vice versa effects.

The day finally came when the Supreme Court of the United States, by a bare majority, reversed the decision of the Three-Judge Federal Trial Court and held the Indiana Law constitutional.

Up to that time a certain measure of security had been enjoyed by chain stores in the belief that all legislation directed discriminatorily at them would be held unconstitutional by the courts and, therefore, invalidated. The five to four decision of the Supreme Court on the Indiana tax, however, destroyed this hope. It wrote a recipe that any other General Assembly could follow.

PART V

The Inequities of the Indiana Tax

The majority opinion in the Indiana case declared by Mr. Justice Owen B. Roberts is devoted, in large part, to a review of the evidence presented by the state in the lower court and is designed to prove that there are a number of distinct advantages in the operation of chain stores as against individually-owned establishments and that these differences are sufficient to constitute a reasonable basis for the separate classification of chain stores for purposes of taxation. It may be helpful briefly to examine Judge Roberts' opinion.

CHAINS LACK EXCLUSIVE ADVANTAGES

Among the advantages which Mr. Justice Roberts listed are quantity buying, cash buying, skill in buying, abundant supply of capital, warehousing, a greater turnover and others.

Although it is true that these so-called advantages are embraced in the operation of any chain of stores, it is manifest that they are each and all used by such department stores as R. H. Macy and Co.; Marshall Field and Co., and to a greater or lesser extent, by every successful merchant.

The fact must also be borne in mind that there were, when Mr. Justice Roberts' opinion was rendered, 7,061 chain store companies operating in this country and there was, and still is, the widest possible variation in policies and methods of operation among them. Moreover, other than that of ownership, there is not a single uniform, universal characteristic of chain store operation not to be found in individually-owned stores.

Quantity buying, for example, is carried on by chain stores, as we have seen, only when it is possible to secure important quantity discounts, lower prices or better terms. Furthermore, quantity buying, when it is practiced at all, is carried on principally in commodities which lend themselves equally well to mass buying both by cooperatively-organized independents and by chain stores. It is clear, too, that any advantages that chain stores once may have had in quantity buying, were also available in 1931, as now, to individual retailers through their cooperative buying associations.

Buying for cash is not, of course, an exclusive policy of chain store organizations. Great multitudes of individual operators make their purchases for cash. Skill in buying, too, is a quality of good management which may be found in independently-owned store and in chain store, alike.

As to the statement that chain stores have a more abundant supply of capital, it must be recognized that the chain store is in no way equipped to use its capital more lavishly than any other type of business organization. It is commonly overlooked that the possession of capital is a responsibility for which the possessor must account to the original owners who, in the case of chain stores, are its stock and bondholders.

What has been said for the foregoing advantages alleged to be enjoyed by chain stores over their competitors may, in fact, be repeated for each of Mr. Justice Roberts' remaining points.

Successful chain stores with their scientific merchandising methods certainly are distinguishable from incompetent independent merchants but they perform no peculiar function and possess no peculiar advantages over America's great army of progressive, alert individual retailers. The same chain advantages urged by Mr. Justice Roberts may be found in a vast number of successful independent enterprises in America.

Both chain stores and progressive independents are alike, therefore, in the specific points upon which a bare majority of the court seemed to believe that it had found important distinctions.

SUTHERLAND'S DISSENTING OPINION

While the amount of the tax per store under the original Indiana Act ranged only from \$3 for each single store owner to \$25 per store for each

owner of 20 stores or more, the decision of the United States Supreme Court, in the judgment of the minority of the court, established a new and dangerous principle striking at the future progress and growth of American business — both wholesale and retail. In concluding his dissenting opinion, for instance, Mr. Justice Sutherland aptly said:

"It may be that here the maximum tax of \$25 for each store while relatively high — is not, if considered by itself, excessive; but to sustain it will open the door of opportunity to the state to increase the amount to an oppressive extent. This court frequently has said — and it cannot be too often repeated in cases of this character — that the power to tax is the power to destroy; and this constitutes a reason why that power, however moderately exercised in given instances, should be jealously confined to the limits set by the Constitution.

"In the face of this decision, and others which might be cited, there does not seem to be any sure comfort in the suggestion, sometimes made, that this court may be expected to intervene whenever the tax reaches the point of destruction. For the foregoing reasons, the judgment of the Three-Judge Federal Court of Indiana declaring this tax unconstitutional should be affirmed."

WAGES OF PUNITIVE TAXATION

This grave decision, once declared, commanded mixed favor throughout America. Chain store critics naturally welcomed it as a step forward in their battle against the chain store. On the other hand, many tax students who measured its significance only from the viewpoint of best public interest, held steadfastly to the opinion that the permitted discrimination against, and the taxation of, the mere ownership of more than one store was, in itself, a threatened danger to American business. If the states of the Union, having been permitted to tax the ownership of more than one store oppressively, were to choose to do so, the effect, they said, would be to place a girdle around the growth of mercantile business and to confine American storekeeping to one-store owners. This, they insisted, would be a step backward and would place a barrier across the road of economic progress. It would definitely deprive the American merchant of the right to develop his business except by enlarging that business in but one location.

And with this, we pause here for a brief analysis of the inequities of discriminatory taxation, generally, and of the Indiana law, specifically.

THE INEQUITIES OF DISCRIMINATION

It is manifest that vast sums have been invested by the American people in various forms of retailing which involve the distribution of goods through more than one controlled outlet. There are thousands of Ameri-

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cans who own from 2 to 20 stores. There are comparatively few of the so-called national chain stores and they are largely owned through a wide distribution of stock among thousands of small holders.

Hence, discriminatory chain store taxation is an unfair burden on both the investment of chain store stockholders and the right of the owner of one store to expand his business through additional units.

Part of the success of American business life has been built upon the right guaranteed by our Constitution to employ capital and labor, and to accumulate property, and to do business, so long as the rights of others are not injured and so long as there is nothing inimical to public health, morals or welfare. Every storekeeper, in the exercise of that Constitutional right, is entitled to the equal protection of the laws and should not be discriminated against, or destroyed, because he has chosen to do business, or may, in the future, choose to do business, in more than one location.

It should be kept in mind, too, that although anti-chain store statutes were, and still are, mainly enacted under the guise of revenue laws, few of those which have yet appeared can prove a legitimate right to that title. They not only violate the cardinal principle of taxation which holds that the tax burden shall be imposed according to the ability to pay, but bear no reasonable relationship to the protection and benefits accorded to those subject to the tax.

DISCRIMINATION IN THE INDIANA LAW

To illustrate the obvious and discriminatory disregard of the "ability to pay" principle by the framers of such statutes, it is necessary only to consider the operation of the Indiana Chain Store Tax under the comparatively low rates of the law as originally enacted.

As we have seen, the taxpayer who carried the original Indiana Chain Store Tax Law to the Supreme Court was the late Lafayette A. Jackson, President of the Standard Grocery Co. He was a resident of Indianapolis who started business in that city and by industry, application and by the use of sound business methods, developed a chain of 225 units, all located in Indianapolis.

In the State of Indiana there were, when the original Indiana Law was enacted, 44,000 retail stores, only 10% of which were chain stores. Among these retail units, there were, and still are, numerous single stores that were, and are, more valuable as investments, and do a larger volume of business, than all the stores of the Standard Grocery Company combined.

In Indianapolis, for example, there is a department store operating 124 separate departments and doing an annual volume of business of more than \$8,000,000. This store, under the provisions of the original Indiana Chain Store Tax Law, was required to pay a license fee of but \$3 per year. In contrast, the Standard Grocery Company, operating 225 separate retail units, with a total annual sales volume of but \$1,000,000,

was, under the tax rates of the Indiana Chain Store Tax Law which was upheld by the Supreme Court of the United States, called upon to pay license fees of \$5,443 per year — or over 1,800 times as much.

Under the rates of the original Indiana Chain Store Tax Law, the same chain store company, upon 225 of its stores was compelled to pay a total of \$5,443 in taxes while the proprietors of 225 individual stores were required to pay, in the aggregate, only \$675 even though their stores were of equal or greater value, were equally well or better located and produced as much or more income.

In the original Indiana Chain Store Tax Law which was upheld by the nation's highest court, the sole differentiation on which the graduated license fees depended, consisted solely of the number of stores operated. There was, in the original Indiana law, and still is both in the new Indiana law and in other graduated license tax laws now operative in America, no regard for kind, size, value, amount invested, income derived or other distinguishing features.

Under the original Indiana Statute, a retailer paid the same as a wholesaler; the owner of a small corner grocery store which was operated by its owner, alone, paid the same as the owner of a large department store employing hundreds of clerks. To determine that a tax of \$25 per store instead of \$3, \$10, \$15 or \$20 was impossible on a store, it was necessary only to answer, affirmatively, the query — "Is this store operated by a person who already operates 20 or more other stores within this State under central management, ownership or ultimate capital control?"

This must clearly demonstrate the inequitable application of such taxes not only as applied to chain stores, but to individual retailers, as well.

CHAIN LAWS PRIMARILY PUNITIVE

Although, as stated, it superficially appears that anti-chain store laws are designed to obtain additional state revenue, a thorough examination discloses the impossibility of raising really substantial revenue in this way and reveals the sinister and purely punitive purpose underlying practically every such discriminatory chain store tax statute that has taken seed since the origin of anti-chain store legislation in America.

Take, for example, the testimony before the Kentucky courts in 1930 of Shirley E. Haas, then Secretary of the Food Distributors Association which was composed of the individual retail and wholesale grocers who promoted the discriminatory features of the Kentucky graduated gross receipts tax law.

Mr. Haas' evidence is important in establishing that the design, intent and purpose of the Kentucky law was to "aid" individual retail and wholesale merchants at the expense of chain stores and that the tax multiplication and the credit for other taxes were intentional discriminations and not incidental inequalities.

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Mr. Haas was present when the bill was prepared. He helped to draft it. He testified from personal knowledge that the design was to "wallop" the chains for the benefit of their competitors in a similar business.

The testimony of Mr. Haas closely conforms with the conclusions of the Federal Trade Commission on the subject of discriminatory chain store taxes as presented in the following excerpts from the Commission's report.⁴

"If the main purpose of graduated taxes on chain stores is to protect the independent merchant and offset the advantages of the chain by heavier taxation, that purpose can be fully accomplished only through increasing the tax by the full amount of the chain's advantages. Otherwise the effect is merely to slow down the rate of chain store development.

"Theoretically, it is possible to so graduate the tax as to more than offset the chains' advantages and thus force a reversal of the evolution which brought about its present challenging position. Such a policy, however, would involve destruction of the chains' ability to make lower prices than independents and would provoke wide protest from consumers.

"Pro tanto, any tax on chain stores which substantially lessens their ability to undersell independents is open to the same practical objection. If ability to undersell based on greater efficiency or on elimination of credit and delivery costs is destroyed by taxation, it is the consuming public which will really pay the tax and not the chain."

COMMISSION SPEAKS ON CHAIN TAXATION

Pointing out that the Federal government "might conceivably impose a graduated tax on chain stores similar to those imposed by the States", the Federal Trade Commission, in its report, gave the following strong reasons why such legislation would definitely be contrary to public interest and, therefore, should strenuously be resisted.⁵

"To tax out of existence the advantages of chain stores over competitors, is to tax out of existence the advantages which the consuming public have found in patronizing them, with a consequent addition to the cost of living for that section of the public. That portion of the public which is able to pay cash and is willing to forego delivery service in return for the advantage of lower prices will be deprived of that privilege, generally speaking, although there are exceptions both ways.

Note ⁴ *Reference Source*: United States Senate Document 4, 74th Congress, 1st Session.

⁵ Final Report on the Chain Store Investigation, U. S. Senate Document No. 4, 74th Congress, 1st Session, Pages 91-92.

"It will also tend toward an arbitrary frustration of whatever saving in cost of production and distribution results from integration of the functions of producer, wholesaler and retailer.

"So, on the whole, the number of people adversely affected by such a tax would constitute a very substantial percentage in comparison with the number adversely affected by present conditions. The graduated tax on chain stores cannot accomplish fully the social ends aimed at by such legislation without producing incidentally these results."

Thus, on the main question concerning chain stores — the question whether chain stores should be crippled or legislated out of existence by the imposition of excessive taxes — the Federal Trade Commission, after an investigation which lasted over six years, which cost \$1,000,000 and which required 2,694 printed pages to report, delivered an emphatic "No!"

OTHER OBJECTIONS TO CHAIN TAXATION

The foregoing perverted uses of the taxing power not only conflict with sound principles of political economy, but the experience of the past has demonstrated that such efforts have rarely accomplished the real purpose for which they were intended. This is no less true even though the object to be accomplished were a proper one.

Some years ago, for example, the Federal Government was confronted with the serious problem of eliminating child labor and attempted to wipe out this evil by placing a punitive tax on concerns employing "minors." The attempt failed. Since then, definite forward strides have been made through direct federal and state legislation.

If the chain store in its growth and development has nurtured an evil that is injurious to the rights of others or which is inimical to the public health, morals, or welfare, the correction of that evil should and must be attacked directly and not through the subterfuge of tax law. Hostile and discriminatory legislation against chain stores merely to bring profit to a selfish proponent few must inevitably react against the welfare of the American public which has been the recipient of the many benefits and economies that we have seen effected by the growth and development of chain stores in America.

Moreover, even the levying of punitive tax burdens on chain store companies will not for long suspend economic law or make an incompetent merchant permanently successful. And here, let's halt for recapitulation.

PART VI

**Expansion of State Anti-Chain Store Legislation
(May 1931 to January 1, 1933)**

Anti-chain store legislation, we have seen, started in 1925, without trumpets or fanfare and without much success. Within two years, however, the first special chain store tax law was written on the statute books. It was promptly attacked in the courts and was ultimately invalidated.

The willingness of people to take the chain store for granted, without adequate scrutiny of its social and economic values made it possible for political propagandists and demagogues to reap a harvest in money and votes by attacking such retail stores. Their eloquence in describing the patriotic and social desirability of the independent merchant, on the one hand, and the menace of chain store development, on the other, brought such quick response from many sympathetic people who approached the matter emotionally — and thoughtlessly — that from 1927 to May, 1931, a number of new state laws were enacted singling chain stores out for special taxation.

The courts of the land were kept busy considering the legality of such laws. Law after law was invalidated by the courts on the basis that they were discriminatory and punitive.

THE SIGNIFICANT INDIANA DECISION

We saw, however, that in May, 1931 the Supreme Court of the United States, by a vote of 5 to 4 reversed the decision of the Three-Judge Federal District Court of Indiana and upheld the constitutionality of the Indiana Chain Store Tax Law whose attack had been undertaken by chain store litigants as a "test" case to determine whether or not multi-unit systems could legally be singled out by state governments for the express purpose of levying discriminatory graduated license taxes upon them.

By declaring this law constitutional, the highest court of the land gave the various state legislatures a legal precedent for imposing graduated license taxes on chain stores. Thus, this decision, and the West Virginia decision of 1935 declaring that State legislatures, in their discretion, may legally impose *special* taxes on chain stores, without limit, became important mile-posts in the history of anti-chain store legislation.⁶

With the foregoing brief review of the "old", we may now proceed with the "new."

No sooner had the Indiana decision been handed down than wholesale efforts to enact similar laws in other states were immediately commenced. The agitation against chain stores supplied an excellent political

⁶ Note (Fox v. Standard Oil Co. of N. J., 294 U. S. 87).

ANTI-CHAIN STORE TAX LAWS

(As of January 1, 1933)

STATE	TYPE OF TAX	MINIMUM RATE	MAXIMUM RATE
Alabama	G L T (a)	\$1 for 1 store	\$75 per store over 20
Arizona	G L T	\$3 for 1 store	\$25 per store over 20
Florida	G L T	\$5 for 1 store	\$40 per store over 75 if in one county. \$50 per store over 75 if in more than one county. (d)
Indiana	G L T	\$3 for 1 store	\$25 per store over 20
Kentucky	GGST (b)	1/20 of 1% sales \$400,000 or less	1% sales over \$1,000,000
Louisiana	G L T	\$15 for 2-5 stores	\$200 per store over 50
N. Carolina	L T (c)	\$50 per store over 1	\$50 per store over 1
S. Carolina	G L T	\$5 for 1 store	\$150 per store over 29
Wisconsin	G L T	\$10 for 1-5 stores	\$50 per store over 20

NOTE: (a) Graduated License Tax.

(b) Graduated Gross Sales Tax.

(c) Fixed License Tax.

(d) This law also levied a \$3 per 1000 tax on floor stock and a county license tax equal to 25% of the State Tax. It authorized municipalities to levy a tax equal to 25% of the State Tax.

background for chain store tax bills. The Indiana decision supplied the method. The general need for funds supplied the motive.

From May through December 31, 1931, therefore, approximately fifty special chain store tax bills were introduced in state legislatures, many of which had been convened in extraordinary session for the specific purpose of enacting anti-chain store tax statutes similar to the Indiana Law. Three of the foregoing legislatures adopted chain store laws, namely Alabama, Arizona and Florida.

And during 1932, approximately 125 anti-chain store bills were introduced. Special tax measures were enacted in Louisiana and Wisconsin.

HIGHER TAXES IN NEW LAWS

It is interesting to note, here, that despite the fact that each of the foregoing new laws was patterned after the general provisions of the Indiana Law, each, with the exception only of Arizona, featured substantially higher tax rates than its Indiana model. This fact supplied basis for the forecast made by reliable authorities that as chain store legislation progressed, each subsequent bill would become increasingly costly. In a measure, it substantiated the seemingly prophetic vision of Mr. Justice Sutherland.⁷

CHAIN TAXATION GREATER IN '32 THAN IN '27

Thus, as of January 1, 1933, special chain store tax laws were existent on the statute books of nine states.⁸ Whereas the estimated cost of special taxation to all chain companies operating in the respective states was approximately \$100,000 in 1927, by 1932 it had mounted to nearly \$1,250,000, representing an increase of 1150%. In other words, anti-chain store tax statutes were costing chain stores 12½ times more in 1932 than in 1927.

Many special exemptions were written into the various chain store statutes. Although, for the most part, they were not of great importance, it might be interesting to consider some typical examples.

In Alabama, Florida and South Carolina, for instance, filling stations selling gasoline and other petroleum products were totally exempted. In Kentucky, farmers and sellers of farm products raised by them in Kentucky were exempted; sales of gasoline and prescription whiskey were deductible and corporations paying a special license, excise, occupational or corporation tax were permitted to deduct the amount so paid from the tax levied under the Gross Sales Tax Law. The Louisiana law not only exempted persons or corporations operating under a public utility franchise but also gasoline filling stations where the carried average daily stock of gasoline, motor oils or automobile accessories did not exceed \$1,500. In North Carolina, automobile and motorcycle dealers and service stations were exempted.

Note ⁷ See Page 136.

⁸ See Page 142.

PART VII

Development of State Anti-Chain Store Legislation
(1933)

With the breakdown of established tax systems in our respective state governments, all but nine of our states reported budget deficits in 1932. The general economic depression, coupled with what in many cases was an almost tragic condition in agriculture, in real estate, in schools, etc., served to emphasize the need for tax reform, not only in practically every one of our states, but likewise in the bulk of American municipalities.

Faced with the problem of liquidating budget deficits, of raising funds to meet emergencies created by unemployment and otherwise to re-vitalize crumbling tax systems, practically every state legislature sat, during 1933, and sought to meet their financial problems.

It would have been political suicide as well as realistically hopeless to advocate further taxes on the real estate owner, urban or rural. Accordingly a nation-wide scramble to find new sources of state revenue resulted.

The chain store's special tax problem, in these circumstances, became acute; its causes may be diagnosed at this point as follows:

1. That the bulk of the impulse behind the introduction of practically all such legislation was the direct activity of a type of middleman, broker or jobber — usually well-hidden behind the protective cloak of a class of "spearheading" merchants — who hoped, by crippling or destroying chain stores through such taxation, to gain that business which had become lost to them because chain stores generally buy directly from manufacturers and pass what formerly was the personal profit margin of the middleman, broker or jobber directly on to consumers in lower retail prices.
2. That another portion of the anti-chain store tax problem arose from the honest perplexity and urgent necessity of those responsible for raising state revenues and balancing state budgets.
3. That a further part of the legislative problem of chain stores arose as an indirect result of these revenue necessities in the various states. In this connection, it seems only natural that some corporate groups should have been willing to support new forms of taxes, including discriminatory chain store taxes, that while aiding in solving state revenue problems would, nevertheless, do so without adding new tax burdens on themselves or on their own particular businesses.
4. That the balance of the problem was made up of a variety of changing influences and circumstances that were difficult to

denominate by a single name. These included, for illustration, the socialistic concept and the disapproval of so-called "bigness"; pure political opportunism; special antagonisms of politically-powerful groups or interests because of real or fancied injuries, and many others.

By the end of 1933, therefore, the total number of chain store tax laws in America had increased from nine to seventeen.

SEVENTEEN CHAIN LAWS IN 1933

New graduated license taxes were enacted in Idaho, Maine, Maryland, Michigan, Montana and West Virginia. New graduated gross sales tax measures became law in New Mexico and Vermont. A statute requiring both a graduated license tax and a graduated gross receipts tax was enacted in Minnesota. Acts imposing punitive taxes on chain stores, enacted in past years in Florida, Indiana, North Carolina and Wisconsin, were altered in 1933 and were made more costly to companies operating in the respective trading areas. Only the special chain store tax laws existent in Alabama, Kentucky, Louisiana and South Carolina, enacted in the past, escaped change during the hectic legislative session of 1933.

In order better to illustrate the mounting cost of special, punitive chain store taxation to companies during 1933, it may be interesting to review the results of a survey that was made in this connection by the National Chain Store Association.⁹

The Association, just before its dissolution in 1933 compiled data on this subject covering 77 representative chain store companies, of all types, whose aggregate annual sales totalled \$1,944,414,141 in 1932. Its findings are significant.

The cost of aggregate discriminatory chain store taxes to which the foregoing companies were to become subject at the end of 1933 as result of 1933 legislation was estimated at \$2,200,513 per annum. Of this sizeable amount, \$1,948,340 represented *new or increased* discriminatory taxes which had been legislated since January 1, 1933. It is interesting to note, moreover, that had tax bills that had died during the 1933 legislative season been enacted, they would have levied approximately \$20,000,000 of additional discriminatory taxes on these 77 companies, alone.

⁹ Note The National Chain Store Association, serving every major type of chain store, was dissolved in November, 1933, and was replaced by separate trade associations serving respective types of chain stores including the Limited Price Variety Stores Association, the National Council of Shoe Retailers, the National Association of Chain Drug Stores and the National Association of Food Chains. Institute of Distribution, Inc. was founded in 1935 and is being maintained by many types of non-grocery chain store companies to provide the national research, educational, clearing house and other typical association services for many non-grocery chains that, from 1927 to November 1933, had been provided, on practically an industry-wide basis, by the National Chain Store Association.

PART VIII

Further Growth of State Chain Legislation (1934 to January 1, 1939)

The following, in summary, are the principal legislative developments that occurred from January 1, 1934 to January 1, 1939.

- (a) Though 345 special chain store tax measures were introduced in the span of that 5 year period, 322 failed. Of all the anti-chain store tax bills introduced in state legislatures in 1938, for example, only one passed and that successful proposal merely effected a technical change in the Mississippi Chain Store Tax Act of 1936.
- (b) Six of the 17 discriminatory chain store tax laws that existed on state statute books on January 1, 1934 were still in effect on January 1, 1939, namely, Idaho; Indiana; Maryland; Michigan; South Carolina and West Virginia. All were graduated license taxes; all continued the same tax rates that they featured at origin.
- (c) Meantime, the graduated gross sales or gross receipts tax provisions of the Kentucky, New Mexico, Vermont and Wisconsin statutes had either been invalidated through litigation or repealed. Neither Vermont nor New Mexico had discriminatory chain store tax laws on January 1, 1939.¹⁰ Kentucky's¹¹ ill-starred graduated gross receipts tax law, footballed in litigation from 1930 origin was replaced in 1934 by a graduated license tax statute which has since then been voided by the Kentucky Court of Appeals.¹² Wisconsin's graduated gross income tax provisions, on invalidation in 1935 were, by statute provision, automatically replaced by a graduated license tax which, in turn, was superseded by a higher-rate graduated license tax statute in 1935.¹³ This law

Note ¹⁰ New Mexico law invalidated (*Safeway Stores, Inc. et al v. Vigil*, 40 N. M. 190, 57 P. (2d) 287).

Vermont law invalidated (*Great Atlantic & Pacific Tea Co. v. Harvey*, 177 Atl. 423).

¹¹ Kentucky law invalidated (*Stewart Dry Goods Co. v. Lewis*, 294 U. S. 550).

¹² *Great Atlantic and Pacific Tea Co. v. State*, 128 S. W. (2d) 581.

¹³ Wisconsin graduated gross receipts tax invalidated (*Ed Schuster & Co. v. Henry*, 218 Wisc. 506; 296 U. S. 625). The Wisconsin Supreme Court on December 6, 1938 held that the alternate "per store" tax never became operative (*Campbell's Dollar Stores, Inc. v. State*, 229 Wisc. —; 282 N. W. 628).

expired by limitation on July 1, 1937 and was, in turn, replaced by a lower-rate graduated license tax in 1937 that expired by limitation on July 1, 1939.

- (d) The 1933 Maine graduated license tax was repealed in 1937.
- (e) The rates of Montana's 1933 graduated license tax statute were increased by a new statute in 1937;¹⁴ North Carolina's 1933 graduated license tax was superseded in 1935 by a new graduated license tax with higher tax rates; Alabama's graduated license tax statute of 1931 was superseded by a similar law passed in 1935 with higher tax rates.
- (f) Florida's 1933 chain store tax law which, besides its graduated license taxes carried fantastic provisions imposing a \$3 tax on each \$1000 of floor stock plus a county tax on chain stores equivalent to 50% of the total levied state tax was superseded in 1935 by a law imposing both a graduated license tax and a graduated gross receipts tax on chain stores. The graduated license tax provision of this law was continued (and still exists); all except the first bracket of the graduated gross receipts tax, however, was invalidated by the courts.¹⁵ That first bracket imposing a 1/2% tax both on individually-owned stores and on chain stores was continued (and is still in effect) to the dismay of the individual retailers of Florida who, in 1935, advocated the enactment of the law which ultimately backlashed against them.
- (g) In 1934, the Louisiana graduated license tax law of 1932 was replaced by a new and vicious type of chain store tax law. This 1934 discriminatory chain store tax statute, upheld by the U. S. Supreme Court,¹⁶ first classified chain store companies according to the total number of stores that they operated *both* in Louisiana and elsewhere and then levied taxes on the Louisiana stores of taxed companies at rates applicable to the classifications in which the respective companies fell. Here's the tax schedule of this drastic, still-operative statute; it tells its own story.

Note ¹⁴ Montana Act of 1937 invalidated (Vaughn & Ragsdale v. State, Montana Supreme Court, 7-14-39).

¹⁵ Florida invalidation (State ex rel. Adams v. Lee and State ex rel. Lane Drug Stores v. Simpson 122 Fla. 639, 166 So. 227).

¹⁶ Affirmed the decree of a U. S. District Court which had upheld the validity of the Act (Great Atlantic & Pacific Tea Co. v. Grosjean, 301 U. S. 412).

THE CHAIN STORE TELLS ITS STORY

Bracket	Total Stores Operated By Company Everywhere	Tax on Louisiana Units
1	Less than 11	\$ 10 per store
2	11 to 35 stores	\$ 15 " "
3	36 to 50 "	\$ 20 " "
4	51 to 75 "	\$ 25 " "
5	76 to 100 "	\$ 30 " "
6	101 to 125 "	\$ 50 " "
7	126 to 150 "	\$100 " "
8	151 to 175 "	\$150 " "
9	176 to 200 "	\$200 " "
10	201 to 225 "	\$250 " "
11	226 to 250 "	\$300 " "
12	251 to 275 "	\$350 " "
13	276 to 300 "	\$400 " "
14	301 to 400 "	\$450 " "
15	401 to 500 "	\$500 " "
16	Over 500 stores	\$550 " "

The significance of the Louisiana law is demonstrated by the fact that 15 representative chain store companies paid discriminatory taxes under the 1932 Louisiana Chain Store Tax Statute aggregating \$28,485 annually; under the 1934 Louisiana Chain Store Tax Statute, their punitive taxes jumped in Louisiana to \$120,700 annually for a 323% increase in one year.

- (h) In 1934, too, the first and only discriminatory chain store tax law ever enacted by the voters of an entire state through popular initiative was added to Colorado's statute books by this means and still remains there despite effort for its repeal during the 1938 Colorado general election.¹⁷ The statute levies graduated license taxes on chain stores with rates ranging from \$2 to \$300 per store.
- (i) Minnesota's 1933 law levying both a graduated license tax and a graduated gross receipts tax on chain stores was repealed in 1937 and was replaced by a straight graduated license tax on chain stores.¹⁸ The 1937 statute included mail-order houses within its provisions but at exorbitant

Note ¹⁷ Two municipal ordinances have also been approved by the vote of the people at general elections, namely, Portland, Oregon (Page 151) and Columbus, Georgia (Page 171).

¹⁸ Minnesota graduated gross receipts tax invalidated by State Supreme Court in *Nat'l Tea Co. v. State*, decided June 16, 1939, 286 N. W. 360; graduated license tax upheld by lower court (*National Tea Co. et al v. State*, decided October 18, 1937). 1937 Act held unconstitutional by District Court, Hennepin County, Minnesota, September 26, 1939 (*C. Thomas Stores Sales System, Inc. v. Minnesota Tax Commission*).

rates reaching \$1200 per-store for all Minnesota stores of a mail-order company over 10. This 1937 enactment was, in turn, invalidated by the Hennepin County District Court on September 26, 1939. The decision of this lower court is being appealed, as of this writing.

- (j) In 1935, in another momentous decision, the Supreme Court of the United States declared that legislatures, in their discretion, may legally impose special taxes on chain stores, *without limit*.¹⁹ Thereafter, higher graduated license taxes in new or amended discriminatory chain store tax laws became a la mode. Cases in point are California's 1935 law with its \$500 maximum per-store tax provisions which was discarded by California voters in 1936 referendum; Georgia's 1937 statute with its \$200 maximum per-store and \$10,000 maximum per-mail-order house unit taxes; Iowa's 1935 chain store tax law whose graduated gross receipts tax provisions were invalidated in 1935 but whose \$155 maximum per-store license tax provisions were still operative on January 1, 1939 (and are still in effect);²⁰ Mississippi's \$300 maximum per-store license tax law enacted in 1936; Pennsylvania's 1937 graduated license tax law with its \$500 maximum per-store tax levies;²¹ South Dakota's 1937 graduated license tax statute with its \$250 maximum per-store provisions and, finally, Texas' 1935 Graduated License Tax Act with its \$750 maximum per-store taxes which are tops for high tax rates among enacted graduated license taxes from the origin of anti-chain store legislation to date.²²
- (k) Tennessee fathered still another type of anti-chain store tax law. In 1937, the legislature of that state enacted a law imposing a tax on all chain store companies operating in Tennessee at the rate of \$3.00 per-hundred square feet of floor space per-store over the first store, per-company.

Note ¹⁹ West Virginia Act was held to apply to filling stations (*Fox v. Standard Oil Co. of N. J.*, 294 U. S. 87).

²⁰ Iowa graduated gross receipts tax invalidated; graduated license tax upheld (*Graham Dept. Stores v. Valentine*; 12 F. Supp. 760; *Valentine v. Great Atlantic & Pacific Tea Co.*, 229 U. S. 32; *Tolerton & Warfield Co. v. Iowa*, 270 N. W. 427, 222 Iowa 908).

²¹ Declared unconstitutional by Pennsylvania Supreme Court in *American Stores Co. et al v. State*, June 19, 1939, 6 Atl. (2d) 826.

²² Upheld by Texas Supreme Court in *Hurt et al v. Cooper et al*, 130 Tex. 433, 110 S. W. (2d) 896.

The march of time, therefore, brought these significant state anti-chain store tax developments in its wake from January 1, 1934 to January 1, 1939.

Championed by the decisions of the Supreme Court of the United States in the Indiana and West Virginia cases and supported by major decisions in the Iowa, Florida, Michigan, Minnesota and Texas cases, it seemed speculative to some authorities, as of January 1, 1939, that chain stores could look to the courts for relief against burdensome graduated license tax statutes. Moreover, the nation's highest court had given benediction to the arbitrary Louisiana-type of chain store tax statute. (Ed. Note.)

To some authorities, the discriminatory floor space tax principle introduced by the Tennessee law of 1937 loomed, too, as a new and possibly dangerous medium through which chain store enemies might harass chain stores and cripple or destroy their services, their conveniences, their values to 130 million American consumers. (Ed. Note.)

To offset the above trilogy, however, passing time and the courts in the Kentucky, Florida, New Mexico, Iowa, Vermont and Wisconsin cases, according to some authorities, gave chain stores certainty that for the purpose of imposing punitive, discriminatory graduated taxes on them, their sales were sacrosanct, so to speak.

And here we pause to take the measure of the municipal problem that also confronted chain stores in America after 1931.

PART IX

The City Ordinance Problem Facing Chain Stores (1931 to January 1, 1939)

By late autumn in 1931, the financial plight of many municipalities became acute.

The increase in municipal debt arising from deficits was swelled by extensive outlays for relief on the one hand and by tax delinquencies on the other. To meet their rising cost of government and their increasing interest charges on local debts, municipalities, counties and other civil divisions were compelled to search insistently for new sources of revenue.

It was at this gloomy point that municipal ordinances taxing the chain store were first looked to as means of killing two birds with one stone, namely, (a) "walloping" the chains, and (b) procuring additional municipal revenue. The significance of this new problem becomes clearer when it is recognized that there are nearly 3,000 municipalities in America which, it appears, may adopt such measures without special enabling authority by their respective state legislatures.

(Ed. Note: See Pages 177 — 180.

The first municipal corporation to enact an ordinance classifying chain stores for special taxation, according to available records, was Portland, Oregon. During the autumn of 1931, the City Council of that community passed an ordinance providing for the licensing of retail stores starting at \$6 for the first store and progressing to \$50 for each store over twenty.

Those who considered this type of taxation fundamentally unsound took advantage of the referendum provision of the Oregon constitution and circulated a petition which was ultimately signed by 25,000 consumers thereby invoking the Constitution for a popular referendum vote at the next general election.

Of the 105,653 votes cast by Portland voters at the election held in November 1932, only 51,782 favored the repeal of the City Ordinance. Thus, this municipal law escaped repeal by voters at the polls by the slim margin of 2089 votes — the inference from this contest being that such municipal licensing was by no means assured of unmixed popularity among local citizens and voters.

MUNICIPAL TAXATION SPREADS

This new chain store tax problem soon spread to other sections of the country. Hamtramck, Michigan, a city of 56,000 inhabitants, passed an ordinance levying a graduated license tax on chain stores featuring a maximum fee of \$1,000 per-store for each store over three. Efforts to enact similar city ordinances were made in such other Middlewestern cities as Cleveland, Columbus and Youngstown, Ohio and in Milwaukee, Wisconsin.

In St. Louis, Missouri, a chain store ordinance was enacted levying a graduated license tax on chain stores operating in that city with fees starting at \$25 per-store for stores between two and five and progressing to \$250 per-store for each unit over 25. Maplewood, Missouri, following the lead of its neighbor, added a city ordinance to its municipal statutes thereby singling chain stores out for special taxation. Unlike St. Louis, however, Maplewood did not halt at comparatively reasonable special chain store tax rates. As in the case of Hamtramck, the Maplewood Council established a tax scale for its graduated license tax ordinance that progressed to a maximum fee of \$1,000 per-store for all stores over three that were operated by respective chain store companies within that municipality.

MUNICIPAL CHAIN TAXES IN 1933

In due time, the municipal corporations of Rahway, Red Bank, and Newark, New Jersey; Charlotte and Durham, North Carolina; Binghamton, Syracuse and Rochester, New York; Pittsburgh, Pennsylvania; Freeport, Illinois; Camden, Arkansas; Knoxville, Tennessee; and Fredericks-

burg, Virginia followed the example of St. Louis, Maplewood and Hamtramck and sought to levy special city taxes on chain stores. Only four of the foregoing proposals, however, successfully became ordinances. Such local laws were enacted in Red Bank, Durham, Knoxville and Fredericksburg.

As of January 1, 1933, therefore, seven ordinances singling chain stores out for special taxation existed on municipal statute books, according to available records, namely, in Hamtramck, Michigan; St. Louis, Missouri; Red Bank, New Jersey; Durham, North Carolina; Portland, Oregon; Knoxville, Tennessee and Fredericksburg, Virginia.

THE SIGNIFICANT HAMTRAMCK DECISION

Because of the substantial legal precedent which it established, it is desirable, at this point, briefly to discuss the litigation of the Hamtramck ordinance.

The Hamtramck ordinance was enacted on November 10, 1931 and provided for the following graduated fees on merchants selling food supplies and food products at retail within the city:

For one place of business	\$25 tax
For two places of business under the same general management, supervision and ownership	\$50 each
For three such places of business	\$75 each
For four such places of business	\$1000 each

That patent discrimination was effected through this ordinance is demonstrated by the fact that the fee charged to the owner of four places under the provisions of this Act was approximately 1700% in excess of the fee charged to the owner of three places of business; was 3900% in excess of the fee charged for two places of business; and was 15,900% in excess of the fee charged for one place of business. The \$1000 per-unit fee charged to the four-unit owner was so exorbitant an amount, that it supports the conclusion that the ordinance was merely the spawn of punitive motive.

Since the ordinance provided that in the event there shall be imposed upon any corporation any fine and costs, or either, or both, then it shall be lawful to collect such fine and costs, or either, or both, in any action in assumpsit before any Court of competent jurisdiction, it is evident that the ordinance specifically intended to discriminate against corporations.

Had the ordinance been permitted to stand and become operative, it would have imposed a huge tax burden on chain stores, especially to such a concern as the Kroger Grocery and Baking Co. which operated a substantial number of units in that city. Kroger, however, undertook legal action.

Succeeding in obtaining a temporary injunction, counsel for the Kroger Company then commenced litigation to have the restraining order

made permanent. After a four-day trial, Judge Theodore J. Richter, of the Circuit Court of Wayne County, Michigan, granted a permanent injunction to the Kroger Company and enjoined the City Council of Hamtramck from enforcing the chain store ordinance.²³

Judge Richter's opinion in this case is of great importance to the municipal tax problem of chain stores. The following excerpt is of especial significance:

"Municipal corporations have no right, either under General Law or Home Rule Charter, to enact City Ordinances levying discriminatory taxes on chain stores.

"Whatever are the rights of cities to regulate food stores, they cannot, under the guise of regulation or of taxation, adopt an ordinance calling for the payment of different amounts for the same privilege — that of operating one store — just because the one store, in addition, operates a second, a third or more stores. Such classification is arbitrary, unjust and illegal."

A month's period of grace was granted to the Hamtramck Council during which to appeal from the decision of the Circuit District Court. The city, however, decided against such an appeal and the ordinance, in due course, died a natural death.

CLEVELAND PROVIDES ANOTHER PRECEDENT

Of almost equal significance, is the following opinion handed down by the Law Department of Cleveland, Ohio, whose Council, as previously stated, had considered the enactment of an ordinance levying special taxes on chain stores.

"There is a legal objection to the passage of the within Ordinance for the reason that in a recent case of *City of Cincinnati v. Hanke Bros. et al*, No. 23470, the Supreme Court of the State, without opinion, affirmed the judgment of the Court of Appeals, reversing the Common Pleas Court of Hamilton County, thereby, establishing the Law in Ohio that a franchise tax imposed by the State upon a domestic corporation preempted the right of taxation by the State, and a municipality is without power to levy an occupational tax on such corporation.

"In the case of *Oil Works v. Cincinnati*, 123 O. S. 448, the same court held that a corporation having paid the excise tax imposed by the State cannot lawfully again be taxed by a municipality under the guise of a local occupation tax; and the Court of Appeals in the Hanke case, *supra*, based its holding upon the *Oil Works* case."

Note ²³ *Kroger Grocery and Baking Co. v. City of Hamtramck*, December 27, 1932.

From the origin of the chain store's city ordinance problem to December 31, 1938, twenty-seven municipal ordinances were enacted, according to available records, singling chain stores out for special municipal tax burdens. What has been their fate?

Ordinances which had been adopted in Red Bank, New Jersey and in Knoxville, Tennessee were stricken from the statute books, shortly after enactment, by their respective municipal councils. The Hamtramck and Maplewood ordinances were successfully litigated by chain stores.²⁴

The Capitol Heights, Maryland and Aberdeen, Washington statutes, too, were invalidated. The St. Louis ordinance was voided by a lower court and in an appeal to the Supreme Court of the State, this lower court decision was affirmed.²⁵ The Little Rock graduated license tax ordinance which became operative on January 1, 1936 was litigated by chain stores operating in the municipality and was invalidated.²⁶

DISCRIMINATORY TAXATION OF SUPER-MARKETS

Early in 1938 a new type of discriminatory tax upon retailers blossomed in the form of special levies on food markets.

Such an ordinance was initially enacted in Camden, New Jersey and imposed a \$10,000 a year discriminatory tax on respective self-service food markets; additional levies were imposed predicated on the number of departments operated by respective taxpayers or types of merchandise thereby sold.

The Camden example was quickly followed by other New Jersey municipalities and townships. Among New Jersey communities that enacted similar ordinances were the townships of Hamilton, Haddon and Pennsauken, and the municipalities of Atlantic City, Bridgeton and Ventnor.

The enactment of these ordinances aroused a storm of protest from outraged consumers, labor union leaders and other representatives of concerned organizations who contended that the imposition of these discriminatory taxes would raise the cost of living of the low-income residents who patronize such chain establishments and who are least able to afford cost increases on their necessities of life. These aroused persons and groups contended that the municipal lawmakers had no authority to enact legislation having as its purpose the hamstringing of one type of food store in order to enable its competitors to raise retail prices thereby gaining bigger profits.

Note ²⁴ Kroger Grocery and Baking Co. v. City of Hamtramck, Wayne County Circuit Court, December 27, 1932. Kroger Grocery and Baking Co. v. City of Maplewood, Clayton Circuit Court, 1933.

²⁵ Kroger Grocery and Baking Co. v. City of St. Louis, State Supreme Court, May 4, 1937.

²⁶ Kroger Grocery and Baking Co. v. City of Little Rock, Pulaski County Chancery Court, October, 1936.

Ultimately, owners of self-service food stores sought the protection of the courts; the effectiveness of these discriminatory ordinances was stayed pending adjudication by the state's highest court. And after a year-long legal struggle between proponents on the one hand and the operators of "super-markets" in New Jersey on the other, the State Supreme Court set aside these tax ordinances designating them as "arbitrary, unreasonable discriminations between merchants engaged in the same type of business."²⁷

AUGUSTA ENACTS CHAIN TAX ORDINANCE

In December 1938, meantime, the City Council of Augusta, Georgia, adopted a chain store tax ordinance for the year 1939 patterned on the principle of the Louisiana Chain Store Tax Act of 1934. Under its provisions, the ordinance levied taxes on Augusta chain stores ranging from \$6 up to a maximum of \$1200 per-Augusta unit where the total number of stores operated by respective chain store taxpayers exceeded 150.

Promptly, the proposition of whether the Augusta municipal corporation has the authority to enact a Louisiana-type chain store tax was made the subject of litigation. And pending court adjudication, collection of the tax was temporarily restrained by court order.²⁸

MUNICIPAL CHAIN TAXES AT 1938 YEAR-END

Accordingly, discriminatory chain store ordinances, as of December 31, 1938 were effective, according to available records, only in Augusta, Georgia; Bainbridge, Georgia; Burlington, North Carolina; Charleston, West Virginia; Charlotte, North Carolina; Charlottesville, Virginia; Clarksburg, West Virginia; Durham, North Carolina; Fayetteville, North Carolina; Fredericksburg, Virginia; Mount Airy, North Carolina; Portland, Oregon; Spartanburg, South Carolina; Sumter, South Carolina; Thomasville, North Carolina; West Palm Beach, Florida; Wheeling, West Virginia; Wilmington, North Carolina and Winston-Salem, North Carolina which certainly speaks well for the judgment of most municipal governments.

Of the above nineteen municipalities, eight are in North Carolina, where the state chain store tax law specifically vests authority in municipalities to impose discriminatory taxes of its type.

The Charlottesville, Virginia, ordinance, applicable only to persons operating 12 or more stores anywhere, imposes a tax of 10c for each \$100

Note ²⁷ *Great Atlantic & Pacific Tea Co. et al v. City of Camden*, State Supreme Court, February 4, 1939; 122 N. J. Law 47.

²⁸ The ordinance was invalidated by the Richmond Superior Court, on October 21, 1939; *Southern Groceries Co., Inc. v. City of Augusta*. In view of a Georgia Supreme Court decision on Nov. 16, 1939 voiding a similar Columbus ordinance, it seems unlikely, as of this writing, that the city will appeal from the Richmond Superior Court decision.

of chain store sales made during the preceding calendar year. The Fredericksburg, Virginia, ordinance — also applicable only to persons operating 12 or more stores, anywhere — imposes a tax of 28c for each \$100 of sales made during the preceding calendar year.²⁹

And having brought our analysis to January 1, 1939 — both insofar as state and municipal chain store legislation is concerned — we direct attention, at this point, to the Federal problem that for several years has confronted the chain store companies of America.

PART X

Federal Legislation Affecting Chain Stores (1928 to January 1, 1939)

The competitive struggle between the chain store and the dominant individually-owned store had become very keen, as we have seen, during the early 1920's.

Both individually-owned retail stores and the wholesalers through which they purchased were compelled, because of active chain store competition, to resurvey all of their methods of operation. Unnecessary expenses had to be eliminated. Improvements of all kinds had to be made. Many of the abler, more alert and more intelligent wholesalers of the country and thousands of smart retailers quickly learned how successfully to meet chain store competition.

In time, the curve of chain stores in relation to total retail trade reached its peak, as we have seen, at about 20% or 22% of the total retail trade of the country.

If there had been no interference from certain selfish interests, it seems safe to say that the chain store question would soon have been soundly and sanely settled by ordinary business methods. It also seems safe to say that the chains would have found their normal level at or about 25% of the total retail trade. If left to themselves, both the chains and the wholesaler-retailer systems could have gone on together serving both producers and consumers, side by side, and continuing to give the maximum of value and service to the American public.

Unfortunately, however, the chain store question was not permitted to settle in that sensible manner. Instead, it was emphasized and agitated beyond all reason. It became the football of politicians and a symbol of unrest. Independent retailers were organized against the chain store not only nationally but also by states, counties and even down to villages. The

Note ²⁹ A 1932 ordinance imposing a tax of \$250 on each store in excess of one was upheld in *City of Fredericksburg v. Sanitary Grocery Co., Inc.* (Virginia Supreme Court—1937) 168 Va. 57, 190 S. E. 318.

problem took form even in Federal Congress, as the following brief analysis will show.

FEDERAL LEGISLATION AFFECTING CHAINS

Legislation affecting chain stores in common with other groups had been considered in many sessions of Federal Congress. The first direct Congressional action in the matter of chain stores occurred, however, in 1928 when the 70th Congress authorized a Federal Trade Commission investigation of chain stores, out of which a report appeared 6 years later and from which many excerpts are presented at various points throughout this book.

And though a District of Columbia discriminatory chain store tax bill was unsuccessfully considered in 1932, the chain store received no further direct Capitol Hill attention until 1933, when a Congressional investigation into the activities of the American Retail Federation (ARF) was ordered by the House of Representatives.

AMERICAN RETAIL FEDERATION PROBED

The Federation was organized by leading merchants, chain and independent, in April 1935, for the following purposes:⁸⁰

"To collect, assort, collate and distribute all facts in retailing in order to promote a much more general understanding of these facts on the part of the public, Government officials, and retailers themselves; and, also, to collect, collate and distribute facts with regard to the processes of distribution that will result in the elimination of waste — and, at the same time, maintain the full service to customers provided under various existing distributive methods.

"To see to it that the retailers' problems, their needs, their considered opinions be given a hearing in the drafting and enactment of legislation affecting the industry of retail distribution.

"To give the American public a better knowledge and understanding of the nature of retail distribution as a necessary economic function in the business life of the Nation."

Hardly had the Federation's papers of incorporation been filed, however, than, on April 24, 1935, a resolution calling for Congressional investigation into its activities was introduced into the House of Representatives by the Honorable J. J. Cochran of Missouri. The resolution was adopted.

Note ⁸⁰ *Reference Source:* Statement of Louis E. Kirstein, Chairman, Executive Committee of the American Retail Federation at hearings before Special Committee on Investigation of American Retail Federation, U. S. House of Representatives, Seventy-Fourth Congress, First Session, June 5-6, 1935, Page 172.

Though named Chairman of the Congressional Investigating Committee, Mr. Cochran was unable to serve. He was replaced, therefore, by the Honorable Wright Patman of Texas.

Almost simultaneously with Mr. Patman's entrance on the committee, and prior to initial committee hearings, there was grafted into the resolution that originally called merely for an investigation of the American Retail Federation, a separate and supplemental resolution proposing "to investigate the trade practices of individuals, partnerships and corporations engaged in big-scale buying and selling of articles at wholesale or retail and their associations."³¹

OUTCOME OF CONGRESSIONAL PROBE

After a year-long investigation, the judgment of the special House committee was divided 4 to 3. A unanimous report could not apparently be agreed upon. Accordingly, though the majority report signed by Chairman Patman and Representatives Dockweiler, Lucas and Boileau concluded that A.R.F. was large and therefore a "super lobby" but was not engaged in "improper lobbying", the minority report, nevertheless, praised the Federation and asserted that it might well be of great benefit to consumers.

It is noteworthy that neither majority nor minority report made any specific legislative recommendations to the House of Representatives in connection either with the Federation or with its activities. The recommendations of the majority report amounted merely to an endorsement of certain legislation pending before the Congress for the registration of lobbyists.

Filed on April 7, 1936, the majority committee report concerned itself only with a summary of the factual data that had been developed from the investigation of the A. R. F. pursuant to the original resolution. The report stated that data with respect to trade practices of chain store and other

*Note*³¹ Hearings on this subject were held February 10, 15 and 24, 1936. Facts developed at these hearings mainly showed the amount and character of various special allowances and discounts granted to chain store companies by manufacturers and by producers' organizations. As was the case in the Federal Trade Commission investigation, the testimony and depositions submitted in this congressional investigation showed that many of the smaller chain store companies received greater proportionate amounts in special discounts and allowances than did their larger chain store company competitors.

The nature of the services supplied by chain store companies in exchange for these special discounts and allowances was described in much fuller detail in the printed reports of the hearings than in any previously published report.

Considerable misunderstanding of the results of this part of the investigation has occurred, however, because more emphasis was given in published statements to the *amounts* paid to chain store companies by manufacturers and producers in the form of special discounts and allowances for chain store services rendered than to the *value* of these services and their sizable cost to chain store companies supplying them.

retail organizations engaged in large-scale buying, pursuant to the supplemental resolution, would be reported more fully at some future date.³²

ROBINSON-PATMAN BILL CONCEIVED

Almost 10 months before the majority committee's report on the A. R. F. investigation had been submitted and long before the committee's report concerning the trade practices of chain stores and other large retail organizations engaged in large-scale buying had made its appearance, Representative Wright Patman co-sponsored the now famous Robinson-Patman Act. The origin and development of this piece of legislation is interesting and deserves brief review.³³

It must be noted at outset that some wholesale grocers and some wholesale druggists were enthusiastic about the effects of the N. R. A. and its tendency to stabilize prices at higher levels and thereby to stimulate higher profits for these wholesalers. To some wholesalers, therefore, N. R. A. meant dollars in their pockets.

One account reports that the general counsel of a well-known wholesale grocers association, a competent lawyer who at one time had been an Assistant Attorney General and was, therefore, familiar, indeed, with the Sherman Act, with the Clayton Act and with their amendments, foresaw the end of the N.R.A. perhaps a little sooner than many others. Accordingly, he began to explore the possibilities, it is said, of an amendment to the anti-trust laws that as, if and when N.R.A. codes were all scrapped by judicial decision, would accomplish for his clients the major benefits which they expected to reap under their code.

It is reported that on March 21, 1935, a bulletin was mailed to all members of that well-known wholesale grocers association from that association's Washington office announcing that the general counsel of the association was then engaged in the preparation of a bill to be submitted to Congress, calling for amendments to the Clayton Act and to the Federal Trade Commission Act, such amendments to enable the Commission to control and deal with special discounts granted by manufacturers to the large chain stores.

It is reported that the association held a convention in Memphis early in May of that year at which the proposed bill was discussed. Nothing

Note ³² The special congressional investigating committee's report in regard to big-scale buying and selling was finally filed on May 19, 1936, and recommended congressional legislation outlawing discrimination in price or terms of sale between different purchasers of commodities of like grade and quality through the granting by vendors in interstate commerce of price concessions or other stated advantages. It also recommended congressional legislation to prevent every type of discrimination where the effect might be substantially to lessen competition, tend to create a monopoly, etc.

³³ The facts presented from this point to page 162 are predicated on the articles by Frank Parker Stockbridge that appeared in the November 7, 14 and 21, 1936 issues of the weekly magazine, "Today."

further was to be done about it by the association, however, pending the handing down of a decision by the Supreme Court of the United States invalidating the National Industrial Recovery Act.

The anticipated court decision finally arrived on May 27, 1935. The Supreme Court of the United States, on that eventful day, put N.R.A. out of existence.

PATMAN INTRODUCES H. R. 8442

Fourteen days later, on June 11, 1935, Representative Patman after being visited, it is reported, by the president of that well-known wholesale grocers association; by the secretary of a food brokers' association, and by the Washington representative of a druggists' association, introduced the wholesalers' bill as H.R. 8442. On June 26, 1935, the late Senator Joseph T. Robinson introduced a companion bill in the Senate.

Since the price-control code of the retail druggists, too, had been eliminated by the Supreme Court's N.R.A. decision, it had not been difficult, one observer points out, for the wholesale grocers to get bill support from this powerful group and from its widespread, well-organized, well-financed state associations. Nor had it been difficult to get support from food brokers of whose brokerage commissions the Federal Trade Commission had been critical. At least as introduced, the proposal, instead of strengthening the Clayton Act, actually emasculated it and repealed part of the Sherman Act.

To lend emotional appeal to the bill, its proponents hoisted "anti-chain" and "anti-monopoly" colors at its masthead. To gain further popular support, the Patman Bill, in due time, also hoisted "pro-consumer" and "curb big-business" colors.

Every special interest which hoped to benefit financially by the passage of the Robinson-Patman Bill was represented at the hearings that were conducted in the waning days of the first session of the 74th Congress and in the second session of that same Congress. Vigorous protests were made against it by many representative organizations and by economists of national standing. Representatives of consumers, however, were conspicuous by their absence.

INDEPENDENTS HEAR BILL'S SPONSOR

Further to strengthen, in an election year, the impression that this was a move of some sort by and in the interest of "little fellows", namely, the independent retail merchants whose livelihoods, it was said, were threatened by the advantages enjoyed by monopolistic chain store systems, a national druggists' association staged a show at Washington on March 4, 1936. The event was called "Independents' Day."

Every druggist within a day's travel of Washington was urged to attend. They would hear the President speak to them either in Continental Hall or from the White House veranda, they were told. They came. They

did not hear the President; they did, however, hear the bill's author. They got headlines in the newspapers for the Robinson-Patman Bill.

One account relates that nothing was said, and no suggestion was made by the bill's proponents to the small merchants whom they expected to carry the Patman Bill spear that the proposal was anything but an "anti-chain store" and an "anti-monopoly" measure. Nothing was said, it is reported, about the purpose to perpetuate the wholesale price list under which a certain class of distributors of nationally-advertised and trademarked articles, principally food and drugs, were to be assured of certain discount percentages when classified as wholesalers or retailers.³⁴

ROBINSON-PATMAN LAW ENACTED

On June 19, 1936, the Robinson-Patman bill, finally, became law. Fortunately for 130 million American consumers, however, many of the bill's distinctly "anti-consumer" features were either modified or were eliminated before the enactment of the Robinson-Patman Act.

The Robinson-Patman Act, as it presently stands, declares it unlawful for a seller to discriminate in price between different purchasers of like grade and quality, or for the customer knowingly to induce or receive such discrimination where the effect may substantially be to lessen competition or tend to create a monopoly in any line of commerce, or to injure, destroy or prevent competition with the buyer or seller, or with the customer of either of them.

Quantity discounts are permitted under the Act, however, provided the price differential does not exceed "due allowance" for differences in the costs resulting from the differing quantities in which the commodities are sold or delivered. Differentials by reason of other differences in the cost of manufacture, sale or delivery resulting from the differing methods in which the commodities are sold or delivered are likewise permitted.

The Act also declares it unlawful to pay brokerage commissions to purchasers or to agents, subject to their direct or indirect control, except for services rendered. It is also unlawful to receive the benefit of such commissions. It is further declared unlawful for a seller to pay a customer for services or facilities furnished by such customer in connection with the sale of the commodities, unless such payment is available on proportionately equal terms to all other customers competing in the distribution of such commodities.

Some opinion maintains that the door was left wide open by the enacted statute for interminable litigation; nor is the situation in which all business has since found itself under the Robinson-Patman Act simplified by the language of the measure. Some have labelled the statute a hodge-podge of verbiage which means anything or nothing, much of which is apparently intended as camouflage to conceal the Act's real purpose,

Note ³⁴ *Reference Source*: See Footnote 33, Page 159.

namely, to entrench a certain type of middleman in commerce as he had thought he was entrenched under N.R.A. Codes.³⁵

DIES AMENDMENT PASSES HOUSE

There was comparative anti-chain store quiet on Capitol Hill during the first several months of the 1937 Congressional session. In late spring of that year, however, a lightning blow was attempted against chain stores.

In the waning days of the first session of the 75th Congress, the House District of Columbia Committee accepted an amendment introduced by Representative Martin Dies of Texas to the District of Columbia Appropriation Bill that was before that Committee. The Dies Amendment proposed a Louisiana-type chain store tax on chain store companies operating in the District of Columbia. Without hearing, the House Bill, including the Dies amendment, was reported out of that Committee and, without hearing, speedily passed the House of Representatives by an overwhelming majority.

The proposal, naturally, had national significance. While the bill was directly applicable only to the District of Columbia, it was, nevertheless, clear that an enacted bill of this nature in the District would, by its example, have affected the trends of anti-chain store legislation throughout America.

Public protest against the Dies amendment came quickly and substantially with the result that a hearing was granted on the proposal by the Senate District of Columbia Committee to which it had been referred. Housewives, producers, manufacturers, landlords, farmers and others appeared at the hearing in abundant numbers.

"Does anyone wish to testify in support of the chain store tax?", asked Committee Chairman William H. King of the large audience that attended the hearing. There was no response. "How many wish to protest against the tax?", he asked. Up went hundreds of hands. The Dies amend-

Note ³⁵ *Reference Source:* See Footnote 33, Page 159. It is interesting, meantime, to note that in August 1939 ("News Week", August 21, 1939), the National Association of Retail Grocers petitioned the U. S. Department of Justice to investigate charges that Eastern chain grocery companies were resorting to monopolistic buying practices in fruit and vegetable markets. In the same issue, "News Week" pointed out that a Department of Agriculture report in 1937 exonerated the chains of similar allegations and said that the disappointment of independent merchants over the Robinson-Patman Act explained the current demand for such a Justice Department probe. While the Federal Trade Commission's cases against some food chains drag along in the Federal Courts, according to "News Week", the independents, themselves, have not been free of FTC action. The case against the Red and White voluntary chain was advanced as an instance in point. Meanwhile, the U. S. Department of Justice announced its intention, according to the August 10, 1939 issue of the New York Times, to conduct such an investigation, but asserted that its probe should involve *all* types of retail grocery merchants, independent as well as chain. As of this writing, no results of this probe have been announced.

ment eventually was eliminated from the House District of Columbia Bill. In due course, the Appropriation Bill passed and ultimately became law — but without discriminatory chain store tax provisions.⁸⁶

Our exploration having reached 1938 and the second session of the 75th Congress, attention may now be directed here to the far-famed "Federal Community-Preservation Bill", alias "Freedom of Opportunity Bill", alias "Chain Store Destruction Bill" that was introduced for the first time in this Congressional session.

"CHAIN STORE DESTRUCTION BILL"

The so-called Patman bill was introduced into the House of Representatives in February 1938 as H.R. 9464.

The author proposed to meet the alleged menace of the chain store by imposing a graduated Federal excise tax on chain store companies commencing from \$50 annually per-store on chains operating from 10 to 15 outlets, and progressing to a maximum of \$1000 per-store for each unit in a chain conducting in excess of 500 stores. And it didn't stop there.

According to the provisions of the bill, the foregoing graduated license tax automatically multiplied according to the number of states in which an affected chain store company operated stores. In other words, if a company operated 500 or more stores in, say, 10 or so states, including the District of Columbia, then besides all the many other Federal, state and local taxes for which that company was annually obligated, the Patman bill would additionally have taxed that company \$1000 per each of its stores *multiplied by the number of states in which the company conducted store operations including, for good measure, the District of Columbia.*

For the first two years, only a small fraction of the special Federal tax would have been levied on companies in order to give them an opportunity to wind-up their affairs, to write their obituaries, and to prevent a sudden wholesale loss of jobs among hundreds of thousands of their employees.

After the second year, however, all of the affected chain store systems, as then constituted, would, had the bill become law, either have been seriously crippled or forced out of existence. In the case, for example, of a great shoe company, the ultimate per-annum tax cost of H.R. 9464, had it passed, would, within two years, have totalled over \$17,000,000 of that company's \$36,000,000 or so yearly sales. The foregoing \$17,000,000 annual tax would, of course, have been additional to the many other Federal, state and local taxes to which that company, like all other chain store companies, would likewise have been subject. Significantly, this company's 1938 net earnings totalled about \$1,500,000.

Note ⁸⁶ Added as a rider before passage was the so-called Tydings-Miller bill which, on interstate sales to buyers in states having price maintenance laws (so-called "fair trade laws"), permits these laws to be applied to such interstate sales. As of this writing, 44 states have considered and enacted such statutes.

FAR-REACHING CONSEQUENCES OF H. R. 9464

The author of the bill insisted (and still does) that H.R. 9464 would *seriously affect only about 20 interstate chain store companies*.³⁷ Yet, had the proposal passed, every company operating over 9 stores would have been harmfully affected; companies operating few stores in many states would ultimately have been seriously damaged; companies operating many stores in many states would either have been crippled or destroyed.

Here, for example, are estimates of what H.R. 9464 would have meant, had it been enacted, to 63 chain store companies, selected at random, on the basis of their 1938 store operations and their 1938 net earnings.³⁸

Companies Operating	Number Companies	Total 1938 Earnings	Total H. R. 1 Taxes
Over 500 stores	20	\$108,194,821	\$962,689,500
From 400—500 stores	6	28,805,152	37,869,600
From 300—400 stores	2	376,060	5,689,500
From 200—300 stores	10	11,752,459	14,424,300
From 100—200 stores	20	10,333,132	15,323,450
Under 100 stores	5	917,189	547,250
Total	63	\$160,378,813	\$1,036,543,600

And in order more clearly to demonstrate this point, here, on the basis of 1938 store operations and 1938 net earnings, is what H.R. 9464 would have meant to 25 specific companies, selected at random.

OPERATING OVER 500 STORES

Company	Type	Number States Operated	1938 Net Earnings	Amount Annual Tax Under Patman Bill H. R. 9464
A	Drug	37	\$2,067,846	\$11,118,500
B	Food	8	57,627	17,652,000
C	Food	7	2,705,191	14,983,500
D	Food	19	3,741,569	71,867,500
E	Food	6	982,313 (d)	5,361,000
F	Gen. Mdse.	48	13,739,160	63,912,000
G	Shoe	40	1,484,061	17,180,000
Total			\$22,813,141	\$202,074,500

(d) deficit

Note ³⁷ Congressional Record, August 14, 1939, Page 15771.

³⁸ Moody's Manual of Industrial Securities, 1939.

OPERATING OVER 400 TO 500 STORES

Company	Type	Number States Operated	1938 Net Earnings	Amount Annual Tax Under Patman Bill H. R. 9464
A	Food	4	\$ 214,173	\$ 920,800
B	Food	1	179,741 (d)	279,700
C	Variety	38	2,766,424	10,731,200
D	Variety	45	1,792,741	12,100,500
Total			\$4,593,597	\$24,032,200

(d) deficit

OPERATING OVER 300 TO 400 STORES

Company	Type	Number States Operated	1938 Net Earnings	Amount Annual Tax Under Patman Bill H. R. 9464
A	Food	2	\$224,557	\$269,000
B	Shoe	37	151,503	5,420,500
Total			\$376,060	\$5,689,500

OPERATING OVER 200 TO 300 STORES

Company	Type	Number States Operated	1938 Net Earnings	Amount Annual Tax Under Patman Bill H. R. 9464
A	Candy	15	\$904,059	\$1,315,500
B	Food	3	212,651	360,300
C	Shoe	28	265,180	3,127,600
D	Variety	29	860,788	2,525,900
Total			\$2,242,678	\$7,329,300

OPERATING OVER 100 TO 200 STORES

Company	Type	Number States Operated	1938 Net Earnings	Amount Annual Tax Under Patman Bill H. R. 9464
A	Food	28	\$1,423,959	\$1,657,600
B	Optical	44	996,025	2,842,400
C	Restaurant	19	243,076 (d)	492,100
D	Restaurant	8	265,080	304,400
E	Shoe	28	24,350	914,200
F	Shoe	13	287,098 (d)	746,200
Total			\$2,179,240	\$6,956,900

(d) deficit

OPERATING UNDER 100 STORES

Company	Type	Number States Operated	1938 Net Earnings	Amount Annual Tax Under Patman Bill H. R. 9464
A	Apparel	21	\$ 96,202	\$124,950
B	Apparel	23	101,961	270,250
Total			\$198,163	\$395,200

It is interesting to note that, when introduced in February 1938, H.R. 9464, besides its sponsor, had the names on its face of 73 other members of the United States House of Representatives designated as "co-framers, co-authors and co-sponsors of the bill."

The bill at once received the sympathy and active support of that certain class of relatively few wholesalers, jobbers, brokers and independent merchants who for so long had championed proposals to cripple or to destroy active chain store competition thereby legislating profits back to themselves at the consumers' expense.

DISGUISED "ANTI-CONSUMER" LEGISLATION

Fancy organizations with fancy names were formed whose great "cause" was the passage of H.R. 9464 and the crippling or the destruction of the chain store.

These organizations, minority groups at best, sought to masquerade the use of governmental favoritism to benefit themselves as a service in a higher cause. Their appeal ran the gamut of traditional American idealism. They asserted that their method of doing business and their economic interest constituted the American system. They appealed for public support on grounds of local patriotism, on prejudices against outsiders, and on loyalty to such slogans as "free enterprise" and "equal opportunity."

And this appeal apparently prompted the following observation by the Consumers National Federation that was published on page 110 of the April, 1939 issue of Chain Store Age (General Merchandise Edition):

"No one would question that independent retailers are American and have a right to whatever position their efficient performance can bring them in the American scheme of things, but it should also be said that the system of independent retailing as a method of distribution has no monopoly on what is American. In fact, if one were to single out the distinguishing features of the American economy, one would point to the developments of mass production and of mass distribution. General Motors or Henry Ford are as much a part of the American system as any independent retailer.

"To use governmental favoritism and coercion as a method of trade competition against more efficient competitors is clearly not in accordance with American traditions."

In any case, proponent wholesalers and their retailers realized that their proposal to tax the chain stores destructively could not be passed by Congress merely as a special favor to them. The movement, therefore, was dressed up and disguised so as to look like something different. America was deluged with emotional propaganda to show that H.R. 9464 was really a very patriotic and a very necessary proposal; that it was something which in some nebulous, still unexplained way was in the public interest.

America was told in flaming words that the chains are monopolies and that they are driving independent retailers out of business, despite the fact that every public Census of Distribution continues to show that the number of independent retailers is greater than ever and that the volume of business done by independent retailers continues to gain in proportion.

America was told that the chains are dishonest in their methods of doing business and that they are cheating their customers with short-weighting and over-charging, in spite of the fact that every study made on this subject shows that there are no more instances of this in chain stores than in competing stores, and that there is very little of it in either.

America was told that chain stores neglect the broad interest of the communities in which they are located and occasional instances were cited of chain store managers who had refused to join the Chamber of Commerce or to make the amount of contribution desired by some local committee to local causes, good, bad or indifferent. By the use of such illustrations, the effort was made to mislead the people of this country into thinking that *all* chain stores, *all* their managers, and *all* their employees are not interested in and are not carrying their fair share of the responsibility for the life of the communities in which they are located. No argument upon this point can be made against the chain stores, however, which cannot, by the same token, be made, with more than equal reason, against their competitors.

AMERICA TOLD ABOUT ABSENTEE OWNERSHIP

With complete disregard of actual facts, the enemies of the chain stores said that the chains sent their money out-of-town and that they did not pay their fair share of taxes. In fact, chain stores pay for their merchandise in precisely the same manner as their competitors. They employ labor and meet every other local expense met by competing establishments. They must pay every tax levied upon retailing including real estate taxes, either directly or indirectly through their rentals; personal property taxes; license and franchise fees; sales taxes; corporation taxes; income taxes, and so on to the limit. The chain stores not only meet their local obligations and pay their share of taxes, but in addition thereto (and here is the heart of the issue), they actually leave more money in the community than their competitors. They leave this money where it will do the most good — in the pocketbooks of the consumers.

(Ed. Note: Data from the top of this page to subhead "Public Opinion Opposes Measure" on p. 169 are from the speech made by Dr. Paul H. Nystrom before the annual convention of the National Association of Real Estate Boards, Milwaukee, Wisc., November 9, 1938 and are used through his courtesy.)

America was told about "absentee ownership." "Absentee ownership" is a bad sounding term. It is apparently intended to suggest the evils suffered under some odious tenant system in agriculture. We may note, however, that the complaints of abuses from absentee landlordism come from the tenants and not from their competitor farmers and laborers. Here, we have very few, if any, complaints from the managers and employees of the chains under the so-called absentee ownership system. They are satisfied for they know that they have steady, well-paying jobs.

The wails that America heard for the managers and employees of affected companies sounded very doleful indeed coming as they did from certain wholesalers, jobbers, brokers and owners of individual stores who, as we must recall, were, in effect, trying to dislocate them from their jobs and perhaps even lead them to the relief rolls along with the nation's other millions of unemployed.

American property owners were urged to support the Patman Bill to smash chains. They were supposed to forget that it was the chain store that, as we have seen, built up and is now maintaining retail store rentals at their present levels.

SUPPORT OF PROPERTY OWNERS SOUGHT

American property owners were supposed to lose sight of the fact that there are at present 130,000 or so landlords in this country who are renting stores to chains and who are collecting many, many millions of dollars in rentals per year from the chains. They were supposed to lose sight of the fact that the elimination of chain stores from present thriving trading centers would demoralize real estate values, wreck central business sections, and make ghost towns out of them. They were supposed to lose sight of the fact that retail rentals are dependent upon the volume of sales and the amount of net profit that can be made out of a given location; that the more able and skillful the retailer is, the more rental he can afford and is willing to pay for his location.

It is not claimed that chains are always more competent than other types of retailers, but there is probably no one who will deny that the average of competency among chain stores is higher than the average of competency among their competitors. If the chain stores were crippled or eliminated, and even if independent stores were to take their places, it seems inevitable that their average store sales and profits would decline and that rentals must likewise go down.

CONSUMERS WOULD PAY THIS BILL

Every official and impartial investigation ever made of retail prices of individually-owned stores and of chain stores has shown, as we have seen, an average advantage in favor of the chains. While the results of these reports have varied from as low as 1% up to as high as 24%, a fair general average for all these studies would show a chain store advantage over individually-owned establishments of at least 10%. The retailers served by

wholesalers now frequently sell as low as the chains do, but it is the chains who are the pace-setters in retail price-making. The competitive struggle in retail prices goes on continuously and both producers and consumers are the beneficiaries.

The effect of the lower costs of distribution introduced by chain stores, moreover, is not merely to be measured by the differentials actually existing at any given time between wholesaler-retailer and chain store prices. All retail prices are lower, not only in chain stores but also in independent stores because of chain store competition and the savings made by consumers who buy in the nation's retail stores are, in turn, used in buying other necessities and comforts of life.

And finally, America was supposed to lose sight of the fact that any effort made to restrict, retard or destroy the chain store influence in keeping down retail prices, could not help but have a damaging effect not only upon all industries dependent upon the consumers' purchasing power and upon the workers they employ but also upon the entire American economic system.

PUBLIC OPINION OPPOSES MEASURE

Once the far-reaching consequences of H.R. 9464 became generally known, a flood of public opposition resulted. Farmers, manufacturers, union labor, property owners, consumer groups, unorganized consumers and working people, as well as economists, newspaper editors, business and trade journals, college professors, and others joined in a wave of protest against the H.R. 9464 move to cripple or destroy chain stores or to restrict their fullest service to the people of the United States.

In convention at Houston, Texas, in October, 1938, for example, the American Federation of Labor unanimously adopted the report of its Legislative Committee which denounced H.R. 9464.³⁹ Among groups representing millions and millions of farmers, the press, property owners and others who opposed H.R. 9464, were such well-known organizations as the American Farm Bureau Federation; the National Association of Building Owners and Managers; the National Association of Real Estate Boards; the National Editorial Association; and many others of similar type and standing.

Accordingly, H.R. 9464 failed to receive attention by the House Ways and Means Committee to which it had been referred and, therefore, died with the adjournment of the 75th Congress.

And with the foregoing brief review of Federal legislation affecting the chain stores of America from recent origin to the end of 1938, we have now brought our anti-chain store legislative travels, Federal, state and local to January 1, 1939.

Note ³⁹ *Reference Source*: Report of Proceedings of the 58th Annual Convention, A. F. of L., 1938, Pages 570, 571.

PART XI

1939 and Anti-Chain Store Legislation
(As of December 1, 1939)

As of January 1, 1939, state discriminatory chain store tax laws existed on the statute books of twenty-two states, namely, Alabama, Colorado, Florida, Georgia, Idaho, Indiana, Iowa, Kentucky, Louisiana, Maryland, Michigan, Minnesota, Mississippi, Montana, North Carolina, Pennsylvania, South Carolina, South Dakota, Tennessee, Texas, West Virginia and Wisconsin, with four, namely, Kentucky, Montana, Minnesota and Pennsylvania, still receiving court consideration as of that date.

All but one of these 22 punitive statutes, namely, Tennessee and its floor space tax law, imposed graduated license taxes on chain stores.

The Texas law levying a \$750 per-store tax on 51 or more stores, and the Louisiana statute with a maximum per-store tax of \$550 were the existent chain store tax statutes of that date carrying the highest per-store license tax rates.

And besides these state statutes, chain store tax ordinances, according to available records, were operative in nineteen municipalities as 1939 opened and brought with it the regular sessions of forty-four state legislatures besides Federal Congress.⁴⁰

THE 1939 ATTACK ON CHAINS

Once the 1939 legislative session raised curtain and commenced performance, state legislators lost little time in commencing the parade of anti-chain store tax bills. By November 1, ninety-nine discriminatory chain store tax bills had been introduced in the 1939 regular sessions of thirty-one General Assemblies and in the Federal Congress acting for the District of Columbia.

No sooner had the first session of the 76th Federal Congress opened, moreover, than the Patman Bill, neglected in the previous Congress, was speedily thrown into the legislative hopper by its author and became H.R. 1. Though the proposal gained the advantage of a much-coveted bill number, yet the bill, at the same time, lost ground inasmuch as the names of the seventy-three "co-framers, co-authors and co-sponsors" that in 1938 appeared on H.R. 9464 were conspicuously absent on the H.R. 1 face of this famed Federal anti-chain store bill.⁴¹

Confronted with a substantial state legislative problem on the one hand and faced with the menace of Federal legislation of H.R. 1 severity

Note ⁴⁰ See Page 155.

Note ⁴¹ The Rules Committee prohibited the use of the name of more than one framer, author or sponsor per-bill.

on the other, the chain store business in 1939 had yet the frontal attack of municipal legislation with which to contend.

Columbus, Georgia, introduced a special chain store tax bill. Savannah followed suit. Macon and other Georgia municipalities did likewise. Burlington, North Carolina, joined the parade.

Columbus passed an ordinance. It was accepted by the voters at the polls and became law. Litigation attacking its validity was promptly undertaken. Although the Columbus ordinance was sustained by the court of original jurisdiction before which it was tried, an appeal was taken to the Supreme Court of Georgia.⁴² And on November 16, 1939, the Supreme Court of Georgia, reversed the lower court and voided the Columbus tax on the ground that it was "discriminatory, arbitrary and unreasonable."

An ordinance was likewise adopted in Savannah. It imposed a graduated license tax on retail grocery chains at rates based on store floor space ranging from \$40 to \$1500 per store where floor space exceeds 10,000 square feet.

In time, however, the municipal bombardment diminished. And at this writing, all efforts to enact municipal chain store tax ordinances, other than Columbus and Savannah, have failed according to the best available information.

WAGES OF CLASS LEGISLATION

Though it bears only indirect importance to the thread of our immediate discussion, it seems desirable to pause here and note the viewpoint of some of the Georgia press in the matter of backlashing anti-chain store legislation. The following item is from a leading newspaper in Macon, Georgia, where, as shown, active agitation for a local chain store tax ordinance had occurred in 1939:⁴³

"Between 40 and 50 buildings that formerly housed retail stores stand vacant here, it was learned yesterday from real estate dealers.

"Approximately 50 per cent of the stores are vacant because of the state tax on chain stores, one dealer estimated, while the other vacancies are attributed to general business conditions.

"The great majority of vacancies are found in the suburban areas within the city limits. Only about eight downtown store buildings are vacant and they are outside of the commonly accepted traffic centers.

"Based on prevailing rental rates, vacant buildings represent an

Note ⁴² Great Atlantic & Pacific Tea Co. v. City of Columbus, Muscogee Superior Court, July 25, 1939.

⁴³ Macon (Ga.) Telegraph News of May 14, 1939.

investment roughly estimated at around \$200,000. Their replacement value would be much greater, a realtor said.

"Stores that at one time rented for as high as \$50 and \$60 a month now go begging for tenants at \$25 a month, it was learned.

"A check on closing in the last two years revealed that Rogers Stores closed 12 of their suburban retail stores when the chain store tax became effective; the Atlantic and Pacific Company closed five and another chain closed two or three.

"To offset loss of retail volume with the closing of the neighborhood stores, chains have established super-markets in the downtown area, in order to escape the chain taxes.

"While some stores have been closed, a chain store lease specialist commented, those still operated by chains have been remodeled extensively and represent some building activity.

"He pointed out that one Cherry Street building that formerly brought its owner \$200 a month rental from an independent merchant now brings the landlord \$800 a month rent from two chain stores.

"The more than 40 vacancies have existed for longer than a year, the realtor reported, and he saw no indication that they would be in demand any time soon.

"Latest chain outfit to leave Macon was the United Cigar Stores retail branch at Cherry and Third, one of the choicest sites in town, now under lease to an independent retailer."

And, below, an editorial from the Macon Telegraph of May 15, 1939:

"It is highly unfortunate that probably a majority of people refuse to visualize a situation until it is brought, concretely, before their eyes, but such seems to be the case. But so long as governments cannot compel people to invest their money in any given way, those investments are going to find the most profitable opening and all the legislation in the world can do no more than dry up the source or divert the funds into new channels which detour the punitive taxes.

"This Georgia law, like so many anti-chain store measures, was not intended, primarily, to bring in revenue. It was deliberately intended to penalize the chain stores and perhaps put them out of business.

"Supporters of the law simply closed their eyes to a mass of evidence showing the vast amount of state products bought and distributed by the chains, in Georgia as in other states. It was made plain that the chains, taking the country as a whole, were not

driving the independents out of business, but did have the effect of making them more efficient.

"But the anti-chain store mania went on and on until it culminated in the infamous Patman bill, now pending in Congress, which admittedly is intended to drive the chain stores out of the United States.

"The loss in rental here in Macon is but a single item. While we have no exact data on the subject, it stands to reason that a large number of employees who were once necessary to operate the 20 units that have been closed, lost their jobs and Macon possibly lost them as citizens.

"On the other hand, the chain store tax has brought little revenue to the state. It is probable that the net result was to lose revenue, when all forms of taxation are considered.

"And yet all this could have been foreseen with almost mathematical accuracy."

PUBLIC PROTEST AGAINST CHAIN BAITING

At one time, as we have seen, it was relatively easy to secure anti-chain store legislation. The clamor of chain store critics was loud; the consuming public, generally speaking, was apathetic. With virtually no protest from the consumer, and under great pressure from chain store enemies, chain store tax bills were passed without compunction. Yet 99 state bills and drastic H.R. 1 made relatively little progress in 1939. Explanation follows:

On November 3, 1936, California consumers were given an opportunity to express themselves on the question of whether chain stores in that state ought to be compelled to pay a special \$500 per-store tax under the California Chain Store Tax Law from whose provisions chain store competitors were completely exempted.

Nearly 60% of the voters of California who cast a ballot on this proposition at the polls on that November day, decisively said "No!". Voters in 58 out of 59 counties balloted against the California Chain Store Tax Law. Thus, the discriminatory law was swept off the California statute books on a wave of public disapproval of a tax measure so clearly contrary to the best interests of that state. The voice of the consumer on the question of anti-chain store taxation was tardy in being raised, to be sure, but once heard, was compelling and was not to be denied.

It became increasingly difficult thereafter to push anti-chain store tax bills through state legislatures and municipal councils. Substantiation of this exists in the fact, for example, that of all the anti-chain store tax bills that were introduced in the state legislatures that sat either in regular or in extraordinary session during 1938, only one, as we have seen, was enacted and that merely effected a technical change in the Mississippi Chain Store Tax Law that was passed in 1936.

Regardless of the great hue and cry that was raised on behalf of H.R. 1 by its proponents especially by active anti-chain store organizations, a wave of public protest against punitive chain store legislation was evidently gaining momentum in America in 1939.⁴⁴

An independent, impartial survey undertaken by Opinion Research Corp., for instance, presented the coast-to-coast viewpoint of a huge number of consumers on numerous aspects of the chain store subject including the opinion of these surveyed consumers in the matter of discriminatory chain store taxation.

It is noteworthy that 84% of those interviewed opposed the crippling or the destruction of chain stores; 54% voted for taxing the chains only at the same rate as their competitors; 77% voted that discriminatory chain store taxes would be followed by higher retail prices in chain stores.

Moreover, a nationwide survey of public opinion, by *Fortune Magazine*, published in February, 1939, showed, after pointing out that the sands had suddenly shifted from under the feet of H.R. 1 author, that only 6.3% of the surveyed people were in favor of putting chain stores out of business; another 37.3% would tax them enough extra to put them on a price parity with competing individually-owned stores; a total of 47.9% of the people would let chain stores alone, and 8.5% had no opinion. Meanwhile, a survey by Roger Babson also returned a preponderance of consumer votes against anti-chain store legislation.

PRO-CHAIN SENTIMENT INCREASES

If only the property rights of chain store systems were involved, naturally the problem of anti-chain store legislation would be relatively unimportant to America and her people.

But chain store companies render an important public service in expanding the buying power of the consumer. As huge purchasers from American sources of supply; as substantial patrons of American property owners; as employers of an army of American employees, chain stores play a major role in keeping the wheels of American social and economic progress turning.

It seems only natural, therefore, that approximately 400 associations, federations and similar organizations, representing millions of members in all 48 states and in the District of Columbia denounced anti-chain store legislation in resolutions and in direct letters to legislators. Leaders in this growing tide of protest against punitive taxes included the National Canners Association; the National Conference on Interstate Trade Barriers; the Congress of American Industry; the Inland Daily Press Association; the National Wool Growers Association; the United States Chamber of Commerce (Western Division) and many others of similar size and type.

⁴⁴ In releasing the results of its 1939 survey in which 23 states with a combined population of 77,882,078 participated, the New Jersey Chamber of Commerce reported that 90% of the nation's farmers were opposed to anti-chain store legislation; that 60% of consumers repudiated this form of class legislation and that 80% of organized labor did likewise.

Groups within the American Federation of Labor denounced all chain store taxes as cuts in labor's "real wage."⁴⁵ As early as April 1938, the Florida Federation of Labor authorized a special study of the effect of taxes on wage levels, living costs and employment opportunities. The committee making this study found in its report, that "chain store taxes would be bound to increase living costs and unemployment." Similar tax studies were authorized by state federations of labor in more than 30 states, and the work of many of the tax study committees appointed were coordinated into the Council of Labor Tax Committees.⁴⁵

Various state federations of labor adopted resolutions opposing chain store taxes. A typical resolution adopted by the Federation of Labor in the home state of H.R. 1's author, Texas, condemned "the Patman bill and all forms of taxation which prostitute the taxing power of the Government to a weapon for the destruction of worthy enterprises by business rivals."⁴⁵

FARM GROUPS STAND OPPOSED

Farm organizations in all sections of the country, including the American Farm Bureau Federation; the National Farmers Union Convention, and many similar groups in many sections of the country were no less vociferous in the matter of discriminatory taxation, pointing out in resolutions that efficient, low-cost chain distribution provides expanding markets for agricultural products; that chains pay high prices to farmers and cut costs to consumers; and that chains render valuable service in distributing surplus crops and stabilizing markets.⁴⁶

The National Cooperative Council, representing 1,600,000 farmers, adopted a typical resolution condemning "discriminatory or punitive taxes designed to destroy or unduly obstruct any channels of distribution, with consequent increase of distributing costs, inflation of prices to consumers and restriction of the flow of agricultural commodities into consumption."⁴⁶

CONSUMERS REJECT CHAIN DESTRUCTION

Consumer groups denounced chain store taxes as threatening an increase of living costs. The Consumers National Federation, for example, conducted an exhaustive survey of chain taxes and found that a chain store tax is also a tax on the consumer. The Federation concluded that consumers are opposing the Patman Bill "because it would put an end to a system or method of distribution which, by and large, justifies its survival by economies of operation and low prices to consumers."⁴⁶

Note ⁴⁵ "Current Trends in Chain Store Taxation" by Carl Byoir & Associates, 1939 (Second Edition) Page 5.

Note ⁴⁶ "Current Trends in Chain Store Taxation" by Carl Byoir & Associates, 1939 (Second Edition) Page 6.

Real estate organizations, as opponents of chain store taxes, pointed out that chains build shopping districts and maintain realty values. The National Association of Real Estate Boards adopted a resolution emphasizing that chain stores improve the character of retail districts, stabilize land values and contribute directly to local governmental revenue; and that anti-chain taxes are "not in the public interest, and are harmful to the normal development of our economic and community life".⁴⁷

A similar resolution was passed by the National Association of Building Owners and Managers. State and/or municipal real estate boards and associations in California, Colorado, Georgia, Illinois, Indiana, Iowa, Michigan, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Utah, Virginia and Washington joined the ever-growing parade against punitive chain store legislation.

The Real Estate Association of the State of New York went even further by officially demanding the repeal of special and discriminatory taxes on chain stores "because such levies unduly burden the consumer, and work against the interest of thousands of owners of properties occupied by the chain store, thus disrupting values and rentals and causing the deterioration of important shopping centers".⁴⁷

CAUTIONED AGAINST BACKLASHING LEGISLATION

Although independent merchants had been encouraged by certain wholesalers to join in the tax attack on chains, many chain store competitors finally recognized the dangerous precedent established by this type of legislation. This is forcefully demonstrated by the fact that the Independent Grocers Anti-Food-Tax Council, representing 50,000 independent grocers placed itself on record in 1939 calling for "immediate cessation of all agitation for discriminatory tax laws", and pointed out that "punitive taxes on competition are, inherently, potentially dangerous" to its members.⁴⁸

And having viewed the growing momentum of public opposition to anti-chain store legislation that had its greatest development in 1939, we may here pick up the threads of our story and consider the effect of that public protest on 1939 anti-chain store legislation.

1939 CHAIN LEGISLATION IN REVIEW

Thirty-one of the forty-four state legislatures that sat from January 1 to November 1, 1939 considered, we have seen, a total of ninety-nine dis-

Note ⁴⁷ "Current Trends in Chain Store Taxation" by Carl Byoir & Associates, 1939 (Second Edition) pp. 6-7. On July 20, 1939, meantime, the Cincinnati Congress of the National Retail Hardware Association (NRHA), in contrast to the pro-H.R. 1 support that it had voted at the NRHA French Lick Congress in 1938 refused, by a decisive vote, again formally to vote H.R. 1 support.

⁴⁸ "Current Trends in Chain Store Taxation" by Carl Byoir & Associates, 1939 (Second Edition) Page 6.

criminatorial chain store tax bills. During this period, however, not one additional state placed a discriminatory chain store tax law on its statute books. Moreover, only four states passed chain store tax bills and in each case, the action merely effected changes in existing or previously-enacted statutes.⁴⁹

North Carolina, for example, slightly increased the tax rates of its chain store tax law. Montana enacted a graduated license tax law to replace its 1937 statute which had been voided due to a technical error in the law's enacting clause. South Dakota replaced its graduated license tax statute with a Louisiana-type law. And though Tennessee increased its chain store floor space tax rate on "out-of-state headquartered corporations" from \$3.00 to \$4.50 per 100 square feet of floor space, this discriminatory amendment was, in due time, set aside by the courts.⁵⁰

While it is noteworthy that, during the 1939 legislative season repeal of existent chain store tax statutes was considered in Wisconsin and in Texas, it is even more noteworthy that in Michigan the very author of the existent Michigan chain store tax law introduced a bill into the 1939 session of the Michigan General Assembly providing for that statute's repeal. Though the Texas and Michigan efforts failed, the regular session of the Wisconsin legislature, nevertheless, ended on October 6, 1939 without enacting any of the bills that proposed the extension of the 1937 Wisconsin Chain Store Tax Law for two years from July 1, 1939.⁵¹ As of this writing, therefore, there is no discriminatory chain store tax on Wisconsin statute books for the first time since 1932.

And after another quiet rest in the House Ways and Means Committee during the entire duration of the congressional session, H.R. 1, victim of a strong tide of public opposition, was filed away with the adjournment of the First Session of the Seventy-Sixth Congress until next session. Moreover, the House District of Columbia Committee, unlike its action on the Dies amendment in 1937, threw out a 1939 District of Columbia chain store tax bill despite the active efforts of its proponents to bring about its passage.

COURTS BRING RELIEF

Worthy of comment at this point is the fact that every court decision that was declared on state chain store taxes in the first eleven months of 1939 held such discriminatory levies unconstitutional.⁵²

Note ⁴⁹ See Table, Page 178 for a list of existent state chain store tax laws as of November 1, 1939.

⁵⁰ *Great Atlantic & Pacific Tea Co. v. State*, State Chancery Court, July 14, 1939.

⁵¹ In Arizona and Maine, Chain Store Tax Laws were repealed by legislatures in 1933 and 1937, respectively.

⁵² As of November 16, 1939, only the Columbus (Ga.) decision of the Court of original jurisdiction marred this record (*Great Atlantic & Pacific Tea Co. v. City of Columbus, Muscogee, Superior Court*, July 25, 1939)... See Page 171. The record was rehabilitated on November 16, 1939, however, when the Georgia Supreme Court reversed the lower court's decision.

CURRENT STATUS OF ANTI-CHAIN STORE TAXATION

(As of December 1, 1939)

STATE	TYPE OF TAX	MINIMUM RATE	MAXIMUM RATE
ALABAMA	GLT (a)	\$1 for 1 store	\$112.50 per store over 20
COLORADO	GLT	\$2 for 1 store	\$300 per store over 24
FLORIDA	GRLT (b)	\$10 for 1 store plus 1/2% gross receipts tax	\$400 for each store if over 15 operated in Florida, plus 1/2% gross receipts tax
GEORGIA	GLT	\$2 for 1 store	\$200 per store over 39
IDAHO	GRLT (b)	\$5 for 1 store	\$500 for each store if over 19 operated in Idaho
INDIANA	GLT	\$3 for 1 store	\$150 per store over 20
IOWA	GLT	\$5 each for 2-10 stores	\$155 per store over 50
LOUISIANA	GCLT (c)	\$10 for 1 store if 10 or less are operated everywhere	\$550 per store if over 500 are operated everywhere
MARYLAND	GLT	\$5 each for 1-5 stores	\$150 per store over 20
MICHIGAN	GLT	\$10 each for 2-3 stores	\$250 per store over 25
MINNESOTA	GLT	\$10 for 1 store	\$350 per store over 150
MISSISSIPPI	GRLT (b)	\$3 each for 1-2 stores	\$300 for each store if over 40 operated in Mississippi
MONTANA	GLT	\$5 for 1 store	\$200 per store over 4
NO. CAROLINA	GLT	\$65 each for 2-5 stores	\$250 per store over 201
SO. CAROLINA	GLT	\$5 for 1 store	\$150 per store over 29
SO. DAKOTA	GCLT (c)	\$1 for single store, \$5 for 1 store if 5 or less are operated everywhere	\$150 per store if over 50 are operated everywhere
TENNESSEE	FST (d)	\$3 per 100 square feet of floor space in each store, except the first	\$3 per 100 square feet of floor space in each store, except the first
TEXAS	GLT	\$1 for 1 store	\$750 per store over 50
W. VIRGINIA	GLT	\$2 for 1 store	\$250 per store over 75

NOTE: (a) Graduated License Tax.

(b) Graduated Retroactive License Tax—the total number of a company's stores operated in the state is first determined and then the tax for the bracket in which the total falls is applied to every store of that company in the state.

(c) Graduated Classified License Tax—the taxpayer is classified first according to the total number of stores operated both in the state and elsewhere, and is then taxed for each store in the state at the rate applicable to the bracket in which the total falls.

(d) Floor Space Tax—levied upon each store in a chain in excess of one.

In an opinion handed down by the Dauphin County Court on February 20, 1939, for example, the court ruled that the Pennsylvania law constituted an invalid classification and was unconstitutional.⁵³

In holding the Pennsylvania Chain Store Tax Act unconstitutional, the Dauphin County Court condemned the tax as "unreasonable, arbitrary and capricious." In affirming the judgment of the lower court, the Pennsylvania Supreme Court stated that "a reading of the statute unquestionably reveals that the legislature has attempted to set up a classification that is based solely upon a difference in quantity of precisely the same tax base, for the classification rests on the number of stores and upon nothing else."

On appeal, the Pennsylvania Supreme Court affirmed the judgment of the lower court and permanently enjoined enforcement of the act on June 19, 1939.

In a test case brought by the Great Atlantic & Pacific Tea Company against the state, the Kentucky Chain Store Tax Act of 1934 was declared invalid by the State Court of Appeals on March 21, 1939.⁵⁴ In voiding this discriminatory graduated license tax, the Kentucky high court found that it was not imposed "in relation to volume of business done" and added that "mere differences in details of conducting a business are not sufficient to justify a classification for the purpose of taxation."

On the heels of the Kentucky and Pennsylvania decisions, the Montana Chain Store Tax Act of 1937 was, as we have seen, declared unconstitutional by the State's Supreme Court on July 14, 1939, because of a technical error in its enacting clause.⁵⁵ And the graduated gross receipts tax provisions of the Minnesota Chain Store Tax Law of 1933 were declared invalid by the Minnesota Supreme Court only shortly thereafter.⁵⁶

Moreover, the Minnesota Law of 1937 imposing a graduated per-store license tax on chain stores and mail-order establishments was voided by a state lower court. At this writing, however, an appeal by the State from this decision seems likely.⁵⁷

Meantime, New Jersey's highest court, in a recent decision invalidating municipal super-market tax ordinances in Camden and in Atlantic City declared that "the municipality may not require its residents to forego the

Note ⁵³ Held unconstitutional by Pennsylvania Supreme Court in *American Stores Co. et al v. State*, June 19, 1939, 6 Atl. (2d) 826.

⁵⁴ Held unconstitutional by Kentucky Court of Appeals in *Great Atlantic & Pacific Tea Co. v. State Tax Commission*, March 21, 1939; petition for rehearing denied June 9, 1939; 128 S. W. (2d) 581.

⁵⁵ *Vaughn & Ragsdale v. State*.

⁵⁶ *National Tea Co. et al v. State*, 286 N. W. 360. As of this writing, the Supreme Court of the United States has not acted on the State's application for a writ of certiorari.

⁵⁷ *C. Thomas Stores Sales System, Inc. v. State*, Hennepin County District Court, September 26, 1939.

exercise of any economy in order that a group of merchants, unwilling to take advantage of economy and management, may prosper".⁵⁸

"The municipality", continued the court, "must reasonably exercise the power to license business. It cannot arbitrarily discriminate between those engaged in the same business merely because one merchant chooses one method for making sales and another fails to do so. The payment of the tax in every instance could be effected only by substantially raising the prices to consumers or by an exhaustion of capital. A municipality cannot, by the imposition of a license tax for revenue, confiscate the property of one merchant merely because he offers his merchandise for sale in one manner rather than in another."

The court further asserted that the ordinances would place "a most unreasonable burden upon a business man because he has selected an old and fair method of selling his goods". It said that the savings from economical operation of self-service stores were passed along to the consumer, commenting: "The ever-increasing cost of living has enforced every economy which the individual can wisely exercise."

Finally, the Augusta Chain Store Tax Ordinance was, on October 21, 1939, held invalid by the State Superior Court, Augusta Circuit, on the ground that the tax thereby imposed on chain stores was "arbitrary, unreasonable, excessive and confiscatory."⁵⁹

THE IMPORTANT COLORADO DECISION

And, at this point we come to one of the most interesting and significant court actions in the history of chain store taxation.

In the case of *Bedford v. Gamble-Skogmo, Inc.*, the Colorado Supreme Court, on May 29, 1939 held that the company was liable, under the state's chain store tax act, for payment of the tax for the operation of its "Gamble Agency Stores."⁶⁰

The company contended that these agency stores were individually-owned, controlled and operated by the local agency operators themselves and that, as to the company, there was, therefore, no tax liability. It was the state's contention, however, that the operation of the agency stores was "ultimately controlled" and "directed" by the company, within the meaning of Section 7 of the Colorado Chain Store Tax Act and that, consequently, these agency stores constituted, in fact, a chain of stores under the statute.

The state further contended that the uniform contract between the company and the agency stores included provisions for the use of a common name, use of a uniform store front and the buying of merchandise by

Note ⁵⁸ *Great Atlantic & Pacific Tea Co. et al v. City of Camden*, New Jersey Supreme Court, February 4, 1939. 122 N. J. Law 47.

⁵⁹ *Southern Groceries Co., Inc. v. City of Augusta*, October 21, 1939.

⁶⁰ *Bedford v. Gamble-Skogmo, Inc.* decided May 29, 1939; 91 P. (2d) 475.

the stores from the company at prices and at terms fixed by the latter. The company reserved the right, furthermore, to cancel the contract and to buy back the stock and take over the lease.

In reversing a lower court decision that had resolved the question in favor of the company, the Supreme Court of Colorado concluded that the operation of the agency stores was controlled and directed by the company, within the meaning of Section 7 of the Act, and that the stores constituted a chain rather than a voluntary cooperative association. The court also pointed out that under chain store tax laws similar to the Colorado Act, it has been held that "control" in the strict legal sense, is not a requisite to liability for the tax.

It is noteworthy that the Colorado Supreme Court predicated its opinion *first* on the United States Supreme Court's ruling in the Indiana chain store tax case which had held that the basis for separate classification of chain stores for special taxation was the feature and the advantage which definitely distinguish them from individual stores dealing in the same commodities and, *second*, on its own conclusion that the purpose of the Gamble-Skogmo contract was to initiate a seat from which both parties could, on the one hand, reap all the advantages of chain store operation and, on the other, enjoy immunity from attendant tax burdens.

In the wake of this adjudication came an opinion by the State Treasurer that on the strength of this Colorado Supreme Court decision, all voluntary and cooperative chains and all oil stations which use a common store front and a common name might become subject to the provisions of the Colorado Chain Store Tax Law. Shortly thereafter, he notified several leading automobile manufacturers, including General Motors, Ford, Chrysler and others, of the Colorado Supreme Court's decision in the Gamble-Skogmo case and demanded payment of substantial back taxes from these corporations on their "authorized dealer" stores.⁶¹

It is interesting, meanwhile, to note the viewpoint of the Colorado press on anti-chain store tax legislation as exemplified by the following item from the Grand Junction (Colo.) Sentinel of July 26, 1939:

"The chain store license fee situation as defended by State Treasurer Armstrong affords another illustration of how careless the voters of Colorado are when they go to passing amendments and initiated measures. We do not blame Treasurer Armstrong in this matter. The state is in such a situation that anywhere it can get money legally, it is up to the state to get that money, but the chain store license law, sweeping in its provisions, forms another

⁶¹ Note Attorneys for Henry Ford filed suit in the Denver District Court on October 8, 1939. An order was sought restraining the State Treasurer from collecting \$129,000 in Colorado chain store taxes from the Ford Company. Ford attorneys said that this suit was a test on behalf of all auto manufacturers. They said the effort to collect such taxes "on wholly independent dealers is a violation of the Constitution."

big tax on the people, just as does the \$45 per month state pension law. These things look innocent and reasonable enough at the time they are promoted by politicians and sponsors and then they suddenly become of tremendous proportions as to financial costs and of course in the long run it is the taxpayer who has to underwrite the financial obligations of pension laws, chain store laws and a good many other of the new plans that have been put into effect largely by the votes of non-thinking people in this state."

BACKLASHINGS OF DISCRIMINATORY TAXATION

The foregoing Colorado situations parallel closely the problem that not long before had confronted the Belk Brothers Company of Charlotte under the North Carolina Chain Store Tax Law.

The company had contended in litigation that it was exempt from state chain store taxes because it did not own a majority stock in any of the 46 stores operating in North Carolina under the Belk name in some form or combination. Its case was lost, however, when the North Carolina Supreme Court, in an opinion handed down on February 1, 1939, held that the State Chain Store Tax Act applied to separately-incorporated stores having similar names and having the benefit of group purchasing or common management.⁶²

And out of all this, it would seem that though so-called voluntary chains will probably be subjected to anti-chain store taxation only as, if

Note ⁶² Belk Brothers Company of Charlotte v. Maxwell, 215 N. C. 10, 200 S. E. 915. In South Dakota, meantime, officers of the K. & K. Company and 23 general merchandise stores operated in the state by that company have been named defendants in a suit filed by the Attorney General for taxes allegedly due under the South Dakota Chain Store Tax Act of 1937. Although the stores are separately incorporated, the Attorney General contends that the company is liable for graduated license taxes because the units are owned, operated and controlled by the same persons and are supervised and directed by one management through ownership of a majority of the stock. And in Idaho, it is reported that the State Attorney General has filed suit in District Court seeking to compel 32 Gamble-Skogmo agency stores (operated as voluntary chain units) to pay Idaho chain store license taxes for 1937, 1938 and 1939.

(*Ed. Note:*

The Journal of Business of the University of Chicago in July, 1939 published an eighty-page supplement entitled "Anti-Chain Store Tax Legislation", by Maurice W. Lee, Assistant Professor of Economics at the Utah State College of Agriculture. Professor Lee traced the history of the chain store tax, its regulatory effect, and other phases of the problem. In conclusion, he advocated that "all chain-store-taxing statutes of whatever type be repealed at the earliest possible moment."

Professor Lee based his thesis on the ground that other Federal and state measures provide adequate control of chain activities; that the statutes constitute a threat against the general welfare; that there is no indication that society at large benefits from anti-chain taxation, although there is much evidence that the opposite result accrues; that the statutes are enacted to promote the interest of the inefficient at the expense of the efficient, and that it is probable that part of the tax burden is shifted to others.)

and when it has been conclusively determined by the courts that they exercise management, ownership or ultimate control over affiliated stores, it nevertheless seems consensus among tax students that these decisions, particularly when coupled, may have the effect of demonstrating that discriminatory legislation is a fickle, unreliable weapon with backlashing tendencies. Growing recognition of this fact is suggested in the remark of a prominent official of a group of independent merchants who after pointing out the dangers inherent in anti-chain store agitation to a recent convention of the National Association of Retail Grocers cautioned "to put your competitor out of business today may whack you between the eyes tomorrow."

IOWA PLAN REFUGE IN DISCARD?

When some Iowa independent retailers went on the war-path four years ago and helped to bring about the enactment of a chain store tax law applicable to gasoline filling stations, oil companies, according to the magazine "Business Week", escaped discriminatory taxation by espousing the so-called "Iowa plan" of marketing. Under it, company-owned stations were leased to operators who thus became independent retailers selling the lessor's brands under contract. The refuge was adopted more widely as anti-chain legislation spread, as social security levies appeared, and as labor organizers began working on service station employees.

Now the trend is reversed, according to "Business Week."⁶³ A powerful move is apparently in the making, the magazine reports, to abandon the Iowa plan and to return to direct company operation.

The foregoing information is publicly significant when coupled with the following data presented by Dr. Paul H. Nystrom to the annual convention of the National Association of Real Estate Boards in Milwaukee in November 1938:

"The uniformly high standards of gas station operation in Iowa are gone. Some of them are as well operated as ever. Many, if not most, are more carelessly kept. Your windshield is not wiped as regularly as before. The stations are not repainted and repaired as often as before nor are they kept as clean. Less attention is given to the upkeep of rest rooms. Many are described as being actually filthy. Any traveler will tell you that stopping at an independent gas station in Iowa, as well as elsewhere is, to use the common expression, just a gamble.

"More important yet, although sales of gasoline have held up under independent station operation, there has been an almost wholesale dismissal of hired help. Managers who as employees of the gas companies had to have two or three assistants to carry on the business, are now getting along without any assistance,

Note ⁶³ See "Business Week", August 12, 1939.

or, as has frequently been observed, with the assistance of their wives and children.

"These are the facts of what occurs when a chain store becomes an independent store. And yet Mr. Patman says that destroying the chains will bring improvements in retailing and increased retail employment!"

PART XII

Chain Store Faces Future Hopefully

The success of a democracy depends upon its adherence to the principle of the greatest good for the greatest number. It is constant chiseling of the public interest by special interests that constitutes the greatest danger to our society. What is the public interest in anti-chain store question? The answer has been supplied by the numerous reports and resolutions of consumer organizations, women's groups, businessmen's clubs, chambers of commerce, farm organizations, hundreds of newspaper editorials, scores of textbook statements, all of which have opposed the principle of chain store destruction, generally, and discriminatory chain store taxation, specifically.⁶⁴

It seems nonsensical and ridiculous that the energies and resources of the two most important channels of retail distribution should uselessly be consumed in a struggle that must eventually result in great loss for all concerned when the facts of the matter are these:

- (a) That America with almost 130,000,000 people to be fed, clothed, shod, medicined and otherwise serviced, affords sufficient opportunity for profit and progress both to the chain store and to the alert, able independent merchant. The \$33,000,000,000 or more in retail trade that is presently available in the United States surely represents enough retail business to be gained in healthy, active competition to satisfy both types of retail outlets.
- (b) That in this broad land of opportunity there is a definite place and demand in our field of retail distribution for both

⁶⁴ Note In the section of the book "Does Distribution Cost Too Much?", in which recommendations dealing with legislation are covered, the Twentieth Century Fund Distribution Committee headed by Dr. Willard L. Thorp of Dun and Bradstreet urges the immediate repeal of all laws designed to preserve or destroy some special group in the distribution structure. Chain store tax laws are given as an outstanding example. The Committee opposes the use of legislation for such purposes and says that "Attempts to freeze the structure already in existence, or to control the process of its development, or to tax certain types of distributors out of existence, or to give special governmental financial aid to others, are . . . measures which are unjustifiable, as a rule, on economic grounds." *Reference Source: Op. Cit. Page 363.*

types of merchants. There is a need, for example, for the chain store which usually concentrates on selling standard, staple, well-advertised necessities of life, primarily on the cash and carry basis, at the lowest retail prices possible, to the average-income citizens of the land, especially to those living in our more densely-populated trading areas. There is an equally urgent need for the progressive independent enterprise which, generally speaking, carries novelties, specialties and fashion or luxury goods; which in many cases extends credit and delivery, and which usually is patronized by the more affluent consumers of respective communities.

- (c) That, despite the charge that chain stores are gradually applying a strangle-hold on American retail trade and driving individual merchants out of the retail business, approximately nine out of every ten stores in America, according to the latest Government statistics, are still independently-owned. From the same source, we find that the number of independent stores in business in 1935 actually increased over the number in 1929, while the number of chain stores in that same period of time has decreased. It is significant that more than 73% of our retail business in America is still being done by individually-owned establishments.
- (d) That a large and increasing number of the 1,474,149 independently-owned retail stores in the United States are now affiliated with the cooperative buying and advertising groups which are currently prospering and developing in the food and grocery field, in the drug field, in the limited price variety store field and in other branches of American retail distribution.
- (e) That the merchants thus joined together in what are commonly known as "voluntary chains", are, to the fullest measure, enjoying whatever benefits may accrue from mass purchasing and joint advertising. These stores, while owned and controlled by independent merchants, are, nevertheless, operated under a common name and uniform store fronts and have most of the so-called advantages of chain store methods of operation. Numbered in this class of independent retailer are the most progressive merchants in the country. They have modernized their stores, adopted scientific merchandising methods and are successfully competing with chain stores. Generally speaking, they have no "axe to grind" against their competitors and neither want nor need the competitive advantages which would attend the emasculation or the destruction of their chain store competitors through punitive, discriminatory taxation.

The chain store renders an increasingly effective service to the millions of average-income consumers who must buy good food, good clothing, good shoes and good medicine at the lowest possible cost and who cannot afford to pay for inefficiency and waste in their retail service.

To levy special or destructive taxes on chain stores, therefore, is in reality only to set up a new tax upon the food, clothing, shoes and medicine of millions of average-income citizens. Wiping out or crippling even interstate chain store companies would be disastrous to America.

With America now awakening to the underlying dangers to American ideals and institutions of Federal, state and local anti-chain store legislation, the day may be close at hand when the chain store will be permitted to concentrate with its competitors on the first job and duty of every American retailer, namely, that of bringing increased values, services and conveniences to the American people at the least possible cost, unmolested by adverse agitation and legislation that is intended to benefit a proponent few at the consumers' expense.

And apropos of those who would continue to agitate legislative discrimination against one class of legitimate retail enterprise to the advantage of another and to the disadvantage of the American public, the following from the Constitution of the Benedictine Order still seems appropriate regardless of the fact that it was set down by St. Benedict about 520 A.D.:

"If any pilgrim monk comes from distant parts and wishes as a guest to dwell within the monastery, and will be content with the customs which he finds in the place . . . he shall be received for as long a time as he desires. But if he hath been found gossip and contumacious in the time of his sojourn as guest, not only ought he not to be joined to the body of the monastery, but also it shall be said to him, honestly, that he must depart. If he does not go, let two stout monks, in the name of God, explain the matter to him."

CHAPTER FIVE

ANSWERING CHAIN STORE CHARGES

Chain stores have been charged with full responsibility for almost every evil besetting the world today. To catalogue all the charges that have been made against them would require a volume. Fortunately, most of these criticisms are so preposterous that they require no answer.

It is nevertheless true that a substantial number of earnest and intelligent citizens would like to know the simple facts and plain truths regarding certain of the outstanding accusations that have been leveled at chain stores. Accordingly, this chapter is devoted to the purpose of placing major chain store criticisms under the microscope of factual evidence and measuring their validity.

PART I

Chain Stores Have Monopolistic Tendencies

— A —

MOST RETAIL STORES ARE NOW OWNED BY CHAIN STORES

Answer

Individually-owned stores in the U. S. (1935)

Chain stores in the U. S. (1935)

In 1929, according to governmental data, there were 1,375,509 individually-owned stores in the United States as against 159,638 chain stores.

By 1935, chain stores had decreased to 139,810 while individually-owned stores jumped by 98,640 to 1,474,149 stores doing over 73% of the nation's retail business.¹ *And they are still increasing.*

— B —

THE CHAINS ARE MONOPOLIZING THE RETAIL TRADE OF THE UNITED STATES

Answer

Chain store sales in the United States in 1935, the latest year for which complete governmental figures are presently available, amounted to less than 23% of the country's entire retail trade. Individually-owned

*Note*¹ *Reference Source:* U. S. Census of Business, 1935, Retail Distribution, Vol. 4 and Retail Chains.

stores obtained over 73% of that retail trade; the remaining 4% was done by establishments selling "house-to-house", by catalogues and through other retail methods.

"Monopoly" means complete or nearly complete lack of competition in a business. But retail competition was never keener than at present. Moreover, not only is competition keen between chain stores and their independent competitors, but is also active among chain stores themselves.

There are 6,079 different individuals, partnerships and companies operating chains of stores. They are in active competition with each other. None of them, in any retail field, has a "monopoly" or even the slightest chance of gaining a monopoly.

Monopoly means higher prices, because that is the aim and purpose of monopoly. But those who claim chain stores are monopolizing retail trade are those who likewise complain that "chain stores sell for less!" *It doesn't make sense!*

— C —

CHAIN STORES THREATEN TO FORM A FOOD TRUST

Answer

The American people, according to the U. S. Census of Business, purchased \$8,362,425,000 worth of food in 1935 from 532,010 stores that were classified by the Census Bureau as food stores.

Of this huge food bill, chain store companies, operating an aggregate of 55,998 stores in America had total sales of \$2,912,776,000. In other words, 476,012 independent merchants in the United States did over 65% of the American food business. In these circumstances and in the face of the following U. S. Census of Business data is it true or false that the chain food store, which has either already come of age or is approaching peak, threatens to monopolize America's retail food distribution? ²

	Other Retailers	Chain Stores
Groceries and Meats	63.4%	36.6%
Dairy Products	51.4%	48.6%
Bakers and Caterers	62.1%	37.9%
Candy and Nuts	86.4%	13.6%
Fruits and Vegetables	95.5%	4.5%
Bottled Beer and Packaged Liquor	98.2%	1.8%
Other Food Stores	96.8%	3.2%

Note ² *Reference Source:* U. S. Census of Business, Retail Vol. 6, Tables 4A and 4G and Retail Vol. 4, Table 1 (1935).

ANSWERING CHAIN STORE CHARGES

Moreover, the Federal Trade Commission, in its final report following chain store investigation said this in the matter of possible chain store monopoly: ³

"In the grocery group, where chain systems have reached their highest development, it has been shown that the large national chains participate proportionately with smaller sectional and local chains in retail grocery sales falling to these types. The competition which they furnish to each other, supplemented by that of independent stores, would seem to negative monopoly by any individual chain. The same is true as to the large chains in the drug group, where the two national chains in active competition with each other at various points, together control but 1.8% of the total retail drug sales. A study of the extent to which chain store companies have invaded the general field of retail distribution of commodities does not indicate a monopolization of that field, taken as a whole."

— D —

CHAIN STORE MONOPOLY IS THREATENED IN OTHER LINES

Answer

What is true in the food field is even more true in other fields of merchandising. That chain stores are far from monopolizing any part of the retail field is demonstrated by the U. S. Census of Business for 1935, as follows: ⁴

	Other Retailers	Chain Stores
Food	65.2%	34.8%
General Merchandise	55.0%	45.0%
Shoes	50.0%	50.0%
Furniture & Household Goods	87.8%	12.2%
Restaurant	85.5%	14.5%
Cigar Stores	64.2%	35.8%
Drugs	74.3%	25.7%
Apparel	72.7%	27.3%

Not only would it be impossible for chain stores to establish a monopoly of our American retail trade because of competitive stopgaps, but there

Note ³ *Reference Source*: Senate Document No. 4, 74th Congress, 1st Session, p. 19.

⁴ *Reference Source*: U. S. Census of Business, Retail Vol. 6, Tables 4A and 4G and Retail Vol. 4, Table 1 (1935).

are also government restrictions further to prevent them from doing so.⁶

The Sherman Anti-Trust Laws, the Clayton Act and the Federal Trade Commission Act are governmental protection against the formation of monopolies.

— E —

**CHAIN STORES ARE BIG AND LIKE EVERYTHING
BIG IN BUSINESS MUST BE CURBED TO AVOID THE
EVILS OF MONOPOLY**

Answer

It is a tragic error to think of all "big business" as being monopolistic. Today, for example, American folks can buy a good automobile for about \$700 as a result of the economies of mass production. Significantly, it has been reliably estimated that to produce the same car by handcraft would cost them \$17,000. In this connection, has bigness been a curse or a blessing?

Today, as a result of mass production and large-scale distribution, consumers buy quality goods, wares and merchandise more economically. Because of these factors, they obtain good foods and commodities at less cost. Likewise, they are offered a much wider variety of all of their needs and wants. Has the public suffered or gained?

Bigness, properly used, means efficiency, service, more goods for less money. It means more wealth, more jobs, more opportunities. It means the kind of progress that in nearly 300 years has transformed America from a poor and unimportant country into the world's greatest industrial power, with the highest standard of living.

Don Francisco, President of Lord & Thomas, aptly said this to the Boston Conference on Distribution on October 3, 1939:

"Economic advantage is confused with illegal advantage. Businesses that grow large are accused of being monopolies. Businesses that can sell for less are accused of being unfair. We resent government regulation if it interferes with our own business, but

⁶ Note In isolated towns and communities, before the advent of the motor car and good roads, it may have been possible for a store to exercise limited monopolistic practices. In his address before the Retailers' National Forum conducted in Washington by the American Retail Federation on May 23, 1939, Mr. B. Earl Puckett, President of Allied Stores Corporation, for example, said he recalled such a store — but that was many years ago. "The only monopolist I have ever met in retail distribution", Mr. Puckett said, "was the country store operator who sold my parents our family needs until the day of good roads and automobiles freed us from his clutches. He not only set the price. He set the grade, the color, and all too often the size. He even made me wear girl's style shoes one year. He was a monopolist of the first water, and a merchandise dictator as well."

invite and work for it if it restrains our competitors. We want freedom without uncertainty. We grow confused in the battle of pressure groups. We praise the spectacular advances in mass production but question the process of mass selling that made them possible. Let me give you one example in the field of distribution.

"I hold no brief for any particular type of retail outlet. It seems to me that there is a place for all types that render a service, and that the consumer should be left to decide which type he prefers to patronize. I believe the chain store and the mail-order house are cost-saving inventions in the field of distribution and therefore comparable, in their effect on prices, to the labor-saving machines in the factory. Through their methods, example and competition they tend to lower consumer prices. Yet, while we question the high cost of distribution, we attempt to tax them out of existence on the pretense of social reform."

Those who would destroy a business because it has been made big by American consumers who have vitally been benefited by its values, services and conveniences would destroy continued American progress and opportunity.

PART II

Chain Store Development Has Doomed Individual Retail Enterprise

— A —

CHAIN STORES ARE DRIVING INDEPENDENT MERCHANTS OUT OF BUSINESS

Answer

Whereas, the number of chain stores in the United States decreased from 159,638 in 1929 to 139,810 in 1935, the number of individually-owned stores in the United States, according to governmental data, increased by 98,640 during that same period.

Moreover, investigations made by independent authorities in 453 separate American communities found that, in proportion to population, there were as many, if not more, individually-owned stores existent as of the dates of the surveys as there had been 10 or 50 years prior. The average life of individually-owned stores was found to have been as long-enduring in these 453 tested communities in the recent dates when these surveys were made as it had been 10 to 50 years prior to those dates!⁶

Note ⁶ See Table, Page 24.

The 453 studied communities ranked in size from crossroad hamlets to metropolitan centers. The studies extended over the years from 1890 to 1936. One study went back to 1844.

Retailing is a trade, and, as previously stated, there is no more reason why, untrained, inexperienced, unqualified, anyone should expect successfully to operate a retail store than in similar circumstances, he would expect, by himself, to build a house. Yet many do.

Hence, mortality among a certain type of independent retail merchant is high. Among this same type of merchant, it has been high even before the advent of chain stores, of department stores and of other types of large scale retailers.

And while mortality among this class of merchant is due, in a slight measure, to competition, authoritative analyses assure that mortality is most often the outcome of inexperience, of inefficient operation, of lack of capital or of any one of many death-dealing reasons that cause store closings and have caused them from the earliest day in American retailing. That's the heritage of retailing; as inescapable as perils to a sailor.

On the other hand, there are more establishments that are operated by efficient, well-qualified independent merchants in America today than ever before and they are securely entrenched in the favor of American consumers.

— B —

**AMERICAN WHOLESALERS ARE BEING DRIVEN
OUT OF BUSINESS BY THE CHAINS**

Answer

The progressive wholesaler like the alert independent grocer has been stimulated to substantial growth by the development of chain stores. Consider the experience of wholesalers in the grocery field, for example.

The wedlock of mass production and large-scale retailing compelled the alert, progressive wholesaler to resurvey his functions and to seek adjustments that would justify and assure his continued existence. During this same post-World War period of greatest chain store development, it also became evident that the independent merchant needed to clean house and to gain purchasing power. In their quest for solution, many progressive wholesalers found their answer in wholesaler-retailer cooperation; so too did many farsighted retailers. Accordingly, these efficient independent stores became wedded to alert wholesale houses, and out of the union came the wholesaler-retailer voluntary chain and such of its principal expressions as the Independent Grocers Alliance; Nation-wide Stores; Red & White Stores; Clover Farm Stores and other of America's great present-day wholesaler-retailer cooperative institutions.

ANSWERING CHAIN STORE CHARGES

In 1926, W. T. Reynolds & Co. of Poughkeepsie sponsored a small group of so-called "Acorn Stores." From this small group of individually-owned units has sprung the Independent Grocers Alliance which by 1933 had spread from coast-to-coast and whose wholesaler-retailer operations embraced 43 states. And from a similar origin came Nation-Wide Stores which now cover entire New England. Clover Farm Stores were organized in 1926 to operate only as a local group in the territory served by the sponsoring wholesaler. Clover Farms, in time, expanded its membership into more than half the states of the Union. And in 1933, Volunteer Stores, Inc. of America was formed. There are now 2,500 such stores in 22 states.

The foregoing are a few examples among many that demonstrate the great American growth of the wholesaler-retailer voluntary chain in the grocery field to say nothing of the equally-impressive growth of the voluntary chain in other fields especially the Federated dry goods stores and Ben Franklin League variety stores of Butler Brothers that we have met on page 98. And here it is interesting to note the following Independent Grocers Alliance data that were presented in the October 20, 1939 Anniversary Edition of the New York Journal of Commerce.

According to that publication, I. G. A. introduced dramatized conventions to the grocery trade. It rented large show houses, built complete stage sets, used full stage lighting, carried a carload of special properties sufficient to build a complete store interior and produced trade miracle dramas of its own composition — all to teach the grocers, wholesale and retail, the I. G. A. plan of co-operative merchandising.

The Journal of Commerce reports that in 1930, I. G. A. started national magazine advertising and the I. G. A. Mutual Insurance Co. Two years later the I. G. A. convention talkie-movie, "Keeping Pace With Progress", the largest industrial film up to the time, was shown in fifty cities and towns.

The 1935 accomplishments of the I. G. A. included sales of 100 cars of rolled oats; 721,000 pounds of coffee; 6,000,000 pounds of dried fruits; 23,000 cases of peanut butter; 40,000 cases of I. G. A. brand gelatine dessert; 10,000 cases of I. G. A. brand cake flour and 5,000 cases of Peak Mint Flavor Tea.

Aside from being cooperative buying organizations, the wholesalers who are affiliated with these voluntary chains aim to help the merchant member in all factors of his business so that he will become more efficient and more prosperous. It is noteworthy, in this connection, that according to the I. G. A., the average cost of doing business of I. G. A. stores is under 15% — an average that most types of retail grocery stores would find difficult to better.

And as finale on this charge, attention is directed to the U. S. Census of Business which reported that in 1935 there were 9,147 more whole-

salers in business than there were in 1929. And that represents an increase of 11% during a period of national business depression and of many business failures.⁷

— C —

CHAIN STORES ARE RESPONSIBLE FOR THE INCREASED MORTALITY OF INDIVIDUAL RETAIL ENTERPRISES

Answer

In Fort Wayne, Ind., for example, 38.7% of the individually-owned grocery stores established between 1890 and 1904 failed or quit within one year. Significantly, between 1890 and 1904 there were no chain stores in Fort Wayne to "put independent stores out of business."⁸

In the 15-year period between 1916 and 1930, on the other hand, 40.3% of the independent stores that started in business failed or quit in their first year. Yet between 1916 and 1930, chain food stores in Fort Wayne had their greatest growth.

To avoid any possibility that the Fort Wayne experience might be held an isolated case in the matter of independent store mortality before the chain store came of age, it is desirable to consider the results of impartial, independent investigations made in similar connection, elsewhere. A few typical examples follow:⁸

Percentage of Individually-Owned Grocery Stores Going Out of Business Within One Year After Starting Business

Fresno, Calif.	1920 to 1930 — 56%
	1905 to 1915 — 59%
Grand Rapids, Mich.	1921 to 1930 — 52%
	1891 to 1900 — 64%
Louisville, Ky.	1921 to 1929 — 45%
	1891 to 1899 — 43%
Schenectady, N. Y.	1922 to 1930 — 49%
	1892 to 1900 — 46%
Texarkana, Tex.-Ark.	1925 to 1935 — 37%
	1901 to 1911 — 46%
Wichita, Kans.	1922 to 1930 — 67%
	1907 to 1915 — 69%

Note ⁷ Reference Source: U. S. Census of Business, Wholesale Vol. 1, Table 1, pp. 56, and 129 (1935).

⁸ See Table, Page 24.

The array of facts contradicting this charge would be incomplete without a marshalling here of the results of the studies of mercantile mortality that were conducted by Ruth G. Hutchinson, Arthur R. Hutchinson and Mabel Newcomer and described in the *American Economic Review* for September, 1938.

These impartial survey-makers studied business mortality in Poughkeepsie, N. Y., for the ninety-year period from 1844 through 1933.

They determined that the average length of life of retail enterprises in Poughkeepsie was appreciably greater between 1874 and 1903 when the population of the city was almost stationary than it was either in the thirty-year period from 1844 to 1873 or in the most recent thirty-year period studied, namely, the era from 1904 to 1933.

A total of 30% of the retail stores established in Poughkeepsie between 1904 and 1933 went out of business within one year. This fact is significant when compared with a 34% average between 1844 and 1873 when the modern chain store was in its cradle, and a 27% average between 1874 and 1903 when chain stores were just reaching adolescence.

The survey-makers found that the length of life of grocery stores in Poughkeepsie was not reduced by chain store competition. It was, moreover, observed that the studied "parlor" or "hole in the wall" grocery establishments had a longer average length of life than those grocery stores in which the proprietor's store and home were separated.

— D —

MOST INDEPENDENT STORE MORTALITY IS DUE TO CHAIN COMPETITION

Answer

Independent surveys have carefully checked the causes of retailers' failures since 1844.⁹ Causes of failure during this period have changed little. Principal causes are still personal characteristics of the retailer, or his operating methods, or both — *not competition*.

The Domestic Distribution Department of the United States Chamber of Commerce has attributed 37.2% of retail failures to lack of capital; 31.4% to incompetence; 4.9% to inexperience; 2.1% to unwise credits; 1.7% to fraud; 0.9% to neglect of business; 0.5% to personal extravagance; and 0.3% to speculation. Only 3.9% fail due to competition; 15.6% due to exigencies such as floods, disasters, etc.; and 1.5% are due specifically to the failures of others.

The Federal Trade Commission, itself, investigated the underlying causes for the failure of 167 stores in 30 communities ranging from 2,000 to 5,000 population.

Note ⁹ See Table, Page 28.

Only 8 of the 167 store owners who discontinued their retail operations attributed their closing to chain store competition. An additional 4 of the surveyed 167 store owners said chain stores were an indirect cause of their closing. The FTC found that the closing of the remaining 155 stores was due to reasons other than competition.¹⁰

And here it seems appropriate to introduce the viewpoint on this general subject of Mr. B. Earl Puckett, President of Allied Stores Corporation, as expressed to the Retailers' National Forum that was conducted in Washington on May 23, 1939 under the auspices of the American Retail Federation:

"We still hear of the so-called evils of the chain store. We hear they are based fundamentally on unjustifiably large purchase discounts. We are told that chain stores are a system, a method. We are told they are BIG BUSINESS with Wall Street connections and are out to drive the little merchant out of business, house and home. Are chain stores a system? Are they successful because they have large capital and large buying power, or are these things results rather than causes?

"I have never been able to reconcile the big business, buying power, quantity discount theories with such vicinities as Scottsdale, Lancaster, McKeesport and Stroudsburg, Pennsylvania, the places of origin of McCrory, Woolworth, Murphy and Newberry, respectively, or with such localities as Kemmerer, Wyoming, or Lynn, Massachusetts, the places of origin of the Penney and Grant chains. Most chain stores grew from small-town individual units under the direction of their original founders, have been directed by men selected and trained by the founders, and have been financed out of their own profits. Their systems, buying power, financial strength, etc., are definitely results and not primary causes.

*Note*¹⁰ *Reference Source:* U. S. Senate Document 93, 73rd Congress, 2nd Session, p. 14. Meantime, one of the most significant efforts to stimulate future progress in the retail grocery business, according to the first Centennial Grocery Edition of the New York Journal of Commerce of October 20, 1939, is the recent establishment of the National Grocers' Institute by the National Association of Retail Grocers. According to that publication, the purposes of the Institute are: (1) to set up a vocational standard for grocery workers and to award identifying degrees; (2) to promote vocational and educational activities and to cooperate with boards of education and of vocations; (3) to provide educational facilities for grocery workers, and; (4) to maintain a national file of qualified grocery workers to which employers may refer for an authenticated record of an individual's background, training and experience. Anyone engaged in retail food distribution may enroll as a probationer and is given a badge to be worn in the store. Degrees conferred, as courses are completed, are those of apprentice, intermediate grocer, advanced grocer and graduate grocer. The honorary degree of master grocer is given to one who has made an outstanding contribution to the public service.

"Some independent smaller merchants have confused cause and effect and have felt that something should be done about the chain store menace. Others have recognized that, by the very nature of the retail business, a competitor can have no secret processes or formulae. These latter have gone into their successful chain store competitors' stores and studied the fixtures, displays, assortments, methods, etc., and adapted them to their own use. They have organized cooperative buying in order to get whatever advantage there is in this factor.

"With most of the advantage of the chain, the added advantages of local ownership and proprietorship management, and the absence of red tape which the chain store can never have, many independent merchants have found themselves in an improved position. * * *"

— E —

**INDEPENDENT STORES HAVE NO WAY TO EQUALIZE
THE BENEFITS OF MULTIPLE-STORE OPERATION**

Answer

Efficient, independent retailers realize that the chain store method of retail distribution is a progressive, economical method. Accordingly, they have adopted the chain store system of buying and selling by forming so-called "voluntary chains" either of their own or in cooperation with wholesalers. As outcome, they presently buy better and merchandise better; they have modernized their stores and they operate them better. Consequently, they are successfully competing both with each other and with chain stores.

In the food field, alone, there are over 110,000 independent retail food stores in "voluntary chains", according to the American Institute of Food Distribution.¹¹ That is more than twice the number of chain food stores in America.

In St. Louis, for example, as against 484 corporate chain grocery stores, there are 1,612, or 3 times as many individually-owned grocery stores which are affiliated with cooperative buying and advertising groups. While chain grocery stores do only 28.3% of the St. Louis food business, these 1,612 obtain the bulk of the 71.7% of the St. Louis grocery trade that is done by individually-owned grocery stores.¹²

There are more than 15,000 individually-owned drug stores in "voluntary chain" groups, as compared with a total of less than 4,000 chain drug stores in America.

Note ¹¹ "An Index to the Operating Methods of Voluntaries and Cooperatives with Ratings on Point-of-Purchase Advertising and Merchandising Services Offered by 246 Groups", The American Institute of Food Distribution, Inc., 420 Lexington Avenue, New York, 1939.

¹² From the data compiled by the "St. Louis Star-Times" Research Department, January, 1939.

Thus, there are over 125,000 individually-owned stores in "voluntary chains" in these two lines of business, alone, as against less than 140,000 chain stores reported, in all lines of business, by the latest governmental census.

And by affiliating with one of these cooperative buying and selling groups, an individually-owned store secures practically the same benefits of large quantity purchasing that chain stores enjoy. Hector Lazo, Executive Vice President of the Co-operative Food Distributors of America, for example, presented this interesting information in the First Centennial Grocery Edition of the New York Journal of Commerce (October 20, 1939):

"Some 25,000 individual retail merchants have found their answer in the retailer-owned cooperative, a thoroughly businesslike business cooperative, which eliminates all unnecessary costs at wholesale and seeks through combined purchasing and advertising power to: (1) Buy as cheaply as the multiple unit competitor and (2) through cooperative merchandising effort, to sell as efficiently. Admittedly it is a large order, but the splendid record of success of many organizations demonstrates that a fine beginning has already been made. * * * In a national survey of sixty leading cities, almost every one of these cities showed marked gains for the chains between 1929 and 1933, but in the six-year period 1929-1935, only thirty-one showed net gains for the chains and in only nine of these were there any retailer-owned cooperatives competing with the chains."

PART III

Chain Stores are the Spawns of Wall Street

— A —

CHAIN STORES ARE THE OFFSPRINGS OF WALL STREET

Answer

As we have seen, nearly all chains were created by independent retailers who started with single stores.

In every case, these independent retailers operated their stores so well that their customers liked them and made them successful. Consumers elsewhere demanded their values, services and conveniences. Accordingly, when these popular merchants had saved up enough money, they opened second stores—either in the same community wherein their first successful stores were operated or elsewhere.

As those second stores also proved successful, they opened third stores, and so on. *That's how chains began and how they grew to their present stature.*

— B —

CHAIN STORES ARE OWNED BY A FEW MONOPOLISTIC MONEY MASTERS OF MANHATTAN

Answer

Chain stores are local enterprises built up from humble beginnings by local independent merchants. Their headquarters are in every section of the country.

For example, there are 109 chains with headquarters in Kansas; 493 in Illinois; 484 in California; 149 in Wisconsin; 137 in Iowa; 264 in Missouri; 97 in Georgia; 99 in Oklahoma.

About $\frac{1}{3}$ of all chain stores are purely local enterprises owned or controlled locally. The balance are publicly-owned.

Substantiation of this is provided by a recent survey of 138 representative chain store companies — conducted by Institute of Distribution, Inc. and four other associations serving chain stores and certified on January 9, 1939 by the public accountants, Peat, Marwick, Mitchell & Co. — which showed that in 1937, reporting companies had over 50,000,000 shares of common stock outstanding, 22% of which was held by company officers and employees, 64% by people in all walks of life and only about 14% by bankers, insurance companies, etc.

Of 3,075,018 shares of outstanding preferred stock, about 25% was held by company officers and employees, 65% by people, coast-to-coast, in all walks of life and only about 10% by bankers, insurance companies, etc.

These companies, alone, had 360,948 stockholders; 314,822 held common stock; 46,126 owned preferred stock. These shareholders resided in widely-scattered communities throughout America. There were 24 common stockholders per 10,000 population; there were about 4 preferred stockholders per 10,000 population.

The 10 largest holders of common stock and the 10 largest holders of preferred stock in reporting companies resided in 237 cities in 42 different states. Since stockholders received in dividends over 80% of the comparatively slim net profits of these reporting companies, it is manifest that the men and women of America who, as their principal stockholders, really owned them, received the bulk of company earnings. These owners included laborers, widows, bookkeepers and others. They were scattered from the Atlantic Ocean to the Pacific.

Moreover, 67% of the Board members of reporting companies were active company officers or employees; only 7% were bankers, brokers or investment underwriters; the balance were people from many trades and professions but none were money masters from Manhattan.

THE CHAIN STORE TELLS ITS STORY

The directors of reporting companies were from all parts of the country; not one city, not even any one section of the country could claim them, as is shown below.

	% of Directors Residing in Each Geographic Section
New England States	8.02%
Middle Atlantic States	38.77%
East North Central States	25.43%
West North Central States	10.37%
South Atlantic States	6.16%
East South Central States	1.49%
West South Central States	4.07%
Mountain States	0.87%
Pacific States	4.82%
Total	100.00%

More than 85% of company directors resided outside New York City. Among the food chain store companies, for example, more directors were found to reside in Houston, Texas, than in any other city. Among the chain drug store companies, the total of directors for 6 other cities was greater than the number of directors residing in New York City. And as many chain drug store directors were found to live in Washington, Fort Wayne, Baltimore and Pittsburgh as in New York City.

— C —

THE CHAINS ARE THE SPAWNS OF INTERLOCKING DIRECTORATES CONTROLLED BY COMMERCIAL BANKS

Answer

The names of directors of 227 chain store companies were carried in the 1938 edition of "Moody's Manual of Industrial Securities."

These 227 companies had 1,628 directors. Of these, 1,530, or nearly 95% were directors in but one chain store company!

Only 42 persons were likewise directors in commercial banks in New York City and their bank affiliations were divided among 23 different banks.

— D —

CHAIN STORES MEAN ABSENTEE CONTROL AND ALL ITS EVILS

Answer

There can be no mechanization of the business of retailing to the extent that it can exist, for example, in mass production. The sale of merchandise in a retail store is an individual and personal transaction between

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the customer and the sales-person. Absentee control cannot be exerted successfully over the myriad of individual and personal transactions that are fundamental in the operation of retail stores.

While there is some centralization of administrative activities in chain stores just as there is in individually-owned department stores and other large retail stores, the selling activities of the store are not subject, in any important degree, to centralized control. Because of these fundamental and inescapable characteristics of retail selling, it is obvious that most of the control of a retail store must be *local* rather than *absentee*.

The position of manager of a chain store is comparable in income and in responsibility to that of manager or owner of a similar independent store. Managers have absolute authority to hire and fire and sell and, in some companies, even to buy.

The United States Census of Business for 1935 shows, furthermore, that the headquarters of chain store companies are to be found in every state and, therefore, that each state receives whatever benefit there is in having in that state the home offices of chain store companies.¹³

Home Office State	Number of Chains	Home Office State	Number of Chains
Alabama	51	Nebraska	70
Arizona	15	Nevada	3
Arkansas	48	New Hampshire	15
California	484	New Jersey	129
Colorado	56	New Mexico	12
Connecticut	75	New York	841
Delaware	5	North Carolina	83
Dist. of Columbia	36	North Dakota	17
Florida	70	Ohio	400
Georgia	97	Oklahoma	99
Idaho	24	Oregon	60
Illinois	493	Pennsylvania	390
Indiana	132	Rhode Island	21
Iowa	137	South Carolina	39
Kansas	109	South Dakota	21
Kentucky	61	Tennessee	98
Louisiana	71	Texas	302
Maine	32	Utah	39
Maryland	65	Vermont	11
Massachusetts	277	Virginia	70
Michigan	241	Washington	84
Minnesota	155	West Virginia	66
Mississippi	29	Wisconsin	149
Missouri	264	Wyoming	11
Montana	22	U. S. Total	6,079

Note ¹³ Reference Source: Retail Chains, Table 7, p. 16.

THE CHAIN STORE TELLS ITS STORY

	# of Chain Store Company Headquarters	% of Total # of Chain Store Companies	% of Total U. S. Retail Trade of all Stores, Chain and Independent, in Each Geographic Section of the Country
New England States	431	7.1%	8.2%
Middle Atlantic	1360	22.4%	25.5%
East North Central	1415	23.3%	21.6%
West North Central	773	12.7%	10.6%
South Atlantic	531	8.7%	10.0%
East South Central	239	3.9%	4.2%
West South Central	520	8.6%	7.0%
Mountain	182	3.0%	3.3%
Pacific	628	10.3%	9.6%
Total	6079	100.0%	100.0%

There is no concentration of the headquarters of chain store companies in any one section of the country.

As shown in the last column of the foregoing table, the distribution of the headquarters of chain store companies parallels, with striking similarity, the distribution of all retail trade in the United States.

PART IV

Chain Stores are a Menace to Local Communities

— A —

CHAIN STORES DO NOT SELL FOR LESS

Answer

Through the Federal Trade Commission's six-year, million-dollar investigation, Uncle Sam himself found that chain grocery prices averaged 8.1% lower, and chain drug store prices averaged 12.5% lower than the retail prices of competing stores. It seems safe to accept about 10% lower as being average for both.

Applying this average figure to the nation as a whole, it is clear that chains multiply the buying power of the nation's consumers by almost a billion dollars a year or over 21½ million dollars a day.

If there were no chain stores, it seems evident that thrifty consumers would have to pay at least 10c on the dollar more than they now pay in chain stores.

Moreover, the stabilization, through active competition, of all retail prices in our various communities is one of the greatest services that chain stores render American consumers.

— B —

CHAIN STORES ARE NOT A COMMUNITY ASSET***Answer***

Exhaustive, independent surveys hold that on food, clothing, medicine and other necessities of life, consumers, by buying in chain stores, save from 2% to 24%, with average at about 10%.¹⁴

That saving is imperative to nine out of ten families, because their income is less than \$50 a week. (One-third of all families in this country must live on even less — \$15 a week or under.)

The money saved by buying necessities in chain stores gives these families a margin for improving their standard of living. It increases their purchasing power. What they save on necessities at chain stores helps them to pay their dentist and doctor bills; it helps buy their gasoline, theatre tickets and radios; it enables them to dress themselves and their children better; it makes the problem of living on their earnings less difficult.

Moreover, instead of being forced to go "out-of-town" to economize on necessities, consumers, wherever chain stores exist, are able to "save at home." Thus, chain stores not only keep money in the community; they likewise attract trade thereto through standout values, services and conveniences.

Millions of consumers view this charge in the same light as the resident of Springfield, Mo. whose letter to the "Daily Leader and Press" was published thereby on December 12, 1938 and read as follows:

"We are strongly in favor of the chains. We favor the chains because in our homes are many comforts we could not have without the chain stores. The greatest objections we hear are that they do not bank their money in our small town banks. Well, they allow many of us to bank money we otherwise wouldn't have to put in a bank. * * *

"For many years we wanted a washing machine, but couldn't pay local prices, \$110 to \$185. When chain stores came to our city we bought a washer for \$49.95. 'Not so good', people said. We have used it with great satisfaction for 8 years, with only one repair, a roller for the wringer, cost \$1. Now we are enjoying a gas range and a circulating heater, both costing less than at local merchants. We have had similar experiences with cream separators, radios, clothing, shoes and linoleum.

"Our local merchants have slogans like, 'Deal With Your Local Merchants And Keep Your Money At Home'. My money is at home when it is in my own pocket."

Note ¹⁴ See Tables, pp. 106, 116, 122 and 124.

Since chain stores give the families in a community more money to spend, keep trade in town and bring new money into town, naturally that stimulates community prosperity. That makes more jobs in the town; more employment for local men and women; a higher community standard of living.

— C —

**CHAIN STORES TAKE MONEY OUT
OF THE COMMUNITY**

Answer

Chains leave more money in the community than does any other system of retailing. Why? Because the consumer who buys at the chain store saves at least 10c average on every dollar's worth of merchandise. He keeps that money in his pocket, to spend in the community.

But even if this were not so, the statement that "the chains take money out of the community" would still be untrue, as demonstrated below by well-known John T. Flynn:

"Consider", he says, "for example, how the town's money goes for a can of soup. The customer buys a can for ten cents at an independent store. What now becomes of this ten cents? Does the grocer keep it and spend it in town? He most certainly does not. He keeps two cents of it for himself and sends the other eight cents to the wholesaler. If the wholesaler happens to have his office in the town itself, half a cent will remain there, but the rest will go out of town to the manufacturer. Thus, out of the consumer's ten cents, only two and a half cents remain in town. If the wholesaler is an out-of-town merchant, then the whole eight cents leaves the vicinity. In the first case, the two and a half cents kept by the local wholesaler and retailer will be distributed by them in rent, salaries, delivery, interest, light, taxes and other expenses and profit. It will for the most part remain in the town.

"Now, suppose that the customer takes his ten cents to a chain store. He will pay eight cents to the chain store for his can of soup and keep two cents himself. This two cents will remain in town, where it will be spent by the consumer, just as it would be if the customer had given the ten cents to a local grocer who purchased his goods from an out-of-town wholesaler. The only difference is that the customer has the two cents instead of the grocer. But what becomes of the eight cents paid to the chain stores? Does it all go out of town? Of course not. A percentage of it must remain there to cover such local expenses as rent, salaries, taxes, light, etc. This portion amounts to 10 or 11 per cent. Accepting the lower figure, we find that of eight cents collected

by the chain store, seven and two-tenths cents go out of town to the central office. Of the ten cents collected by the independent grocer, at least seven and five-tenths go out of town."

The invalidity of this charge is further demonstrated by the following account of what happens to the average consumer dollar spent in a composite chain store:¹⁵

- 67½c Goes to the manufacturers and producers who sell the composite company the items that its stores offer customers. All of these manufacturers and producers are, themselves, local businessmen and employ local residents.
- 15c Goes to pay the wages of local residents who are gainfully employed by the company in its stores, warehouses, offices, etc.
- 5c Goes to cover the cost of the rentals paid by the company to local property owners.
- 1½c Goes to pay the cost of the company's advertising, of all types, including radio and newspaper and for the local purchase of stuffers, handbills, etc.
- 3c Goes to pay the company's Federal, state and local taxes.
- 5c Goes to cover all of the company's other expenses including light, heat, insurance, memberships in local civic organizations, donations to worthy local welfare enterprises, and other items of expenditure, the bulk of which, naturally, is paid by the company to local residents and to local business, service and welfare organizations.

The total of all this is 97c. And the remaining 3c of the average dollar spent by consumers in the stores of the composite chain store company is left to the company, not for hoarding, but to cover interest on its investments; for reinvestment in new store buildings in local communities to local benefit; for improvements in existing store properties; to finance investigations of product improvements in order to enhance merchandise standards and effect production and marketing economies; to provide a fund for rainy days; to give the company a margin of operating safety and, finally, to provide it with a profit as its reward for successful business operation. If it is a local company, owned outright by a local resident, partnership or corporation, this profit naturally remains right in the town in which company headquarters are located. If it is most any other type of chain, however, then even this slim reward must be redistributed in dividends among the many persons, in all walks of life, who as its stockholders, really own the company.

Note ¹⁵ See p. 48.

How much, then, do chain stores take out of communities? Actually, an average of only 3c on each dollar of sales — after saving the people of the community an average of at least 10c on every dollar's worth of chain store merchandise they buy. And as we have seen, even some of this 3c is returned to the communities from which it came.

Check over the other items. Aside from taxes, most of which are taken out of the community by the government, the greater part of every other item of chain store expense, save one, is expended in the community.

The one exception concerns the merchandise and supplies that have to be purchased and brought to town from manufacturers and producers domiciled in other communities. After all, if a chain grocery store in Des Moines needs oranges, it has to buy them from California or Florida. Naturally, the blame that every community does not grow oranges cannot be laid at the door of the chain. Even an independent grocer has to send his money to California or to Florida as, if and when he may need oranges.

And at this point, as finale on this subject, we present a significant excerpt on the subject of "draining local capital" from a statement recently made by the Consumers National Federation:¹⁶

"The chain store spends a greater part of its gross profits in the local community in the form of wages and rent, taxes and other expenses. The savings it permits on food expenditures adds to rather than deducts from the prosperity of local communities.

"Basically, moreover, this point of view (that chain stores take money out of town) is indefensible as a principle of economic organization. Were this principle generally applied, it would mean the abolition of all inter-city, inter-state and inter-regional commerce. It would mean the destruction of such large mass production organizations as General Motors, General Electric, United States Steel Corporation and others. Scarcely anyone, in his senses, objects to the purchase of a Chevrolet motor car on the grounds that General Motors drains profits from the local community. Mass production, because of its efficiency and economies, adds to the wealth of the community at large. Mass distribution, capable of similar efficiency and economies, has a similar result." (Parenthesizing ours.)

— D —

CHAIN STORES HARM A COMMUNITY OR NEIGHBORHOOD IN WHICH THEY OPERATE

Answer

Not long ago, a leading variety store company leased property and opened a store in a section of a community which was slowly changing from residential to business. Then things began to happen.

¹⁶ *Note Reference Source: Chain Store Age (General Merchandise Edition) April, 1939, p. 109.*

The store had scarcely time to open its doors than new, neighboring stores appeared. Customer traffic picked up and the street soon showed the beneficial effects of a general "spruce up" campaign. A convenient, compact, well-balanced business community was established. Idle and depreciating properties were revitalized, made more productive.

The record shows that today, on the 10 modern store structures that had replaced 10 outmoded dwellings, the city and state collect twice as much in taxes. Landlords collect 5 times as much in rentals. The local consumer is enjoying the direct and indirect benefits of improved shopping facilities, of healthy competition.

The foregoing story, direct from actual records, is typical of many similar circumstances.

Before chain stores came, increasing numbers of people in the smaller towns of the United States were driving to nearby large cities to buy clothing, drugs, hardware, and even groceries, because they could get neither the variety nor the values that they wanted in their home towns.

When they went to the nearby cities to buy, they took money out of their home towns. Lots of it! Because they spent money on other things, too, while in the city — movies, beauty parlors, dentists, restaurants, candy, and so on. Hundreds of thousands of other town and farm folks bought by mail instead of in their home towns — before the chain stores came. The coming of the chain stores changed that.

Chain stores stimulated a brighter Main Street. They offered constant supplies of fresh, new merchandise, in wide variety; they made shopping on Main Street more interesting and exciting — and more economical!

More, they inspired their competitors to self-improvement. Today, therefore, all local stores are brighter, cleaner, better arranged, more convenient, more sanitary, with fresher and better stocks. They sell more dependable merchandise and carry a better selection. Since the chain store came, styles and novelties have been brought to Main Street almost as soon as they were seen on Fifth Avenue.

Since chain stores came, local communities get and keep their local trade. Local money stays at home. Local people save money. Community trade, commerce and employment have been much benefited; the local standard of living has mounted. Chain stores have done that!

— E —

**CHAIN STORES DO NOT CONTRIBUTE TO LOCAL
RELIEF, LOCAL SCHOOLS, CHURCHES OR CHARITIES
EXCEPT A MISERLY SUM**

Answer

The support of local relief, local schools and local charities is, in most cases, mainly dependent upon local tax collections. If chain stores do not bear their full, fair share of local taxes, therefore, they are depriving

local relief, local schools and local charities of vital revenue. Let's consult the facts!

Every investigation yet made has found that chain stores pay higher taxes than their competitors. While Federal, state and local taxes in most types of individually-owned stores are estimated to average less than 1% of sales, for example, the taxes paid by reporting chain store companies in a recent, certified survey of 138 representative chain store companies averaged 2.94% of sales and ranged from 1.79% for reporting chain food companies to 3.27% for reporting chain drug store companies and to 3.54% for reporting companies operating other types of chain stores.

Taxes paid by reporting chain store companies averaged \$3,108 per-store and \$215 per-employee. And that's not all!

The donations to organized welfare groups by reporting chain store companies averaged almost \$60 per store for the year surveyed. Reporting companies, furthermore, expended for memberships in local civic organizations, thereby raising the total of their payments for these two civic service and welfare purposes to the impressive average of \$90 per store, per year. Among surveyed variety stores, this average was even higher — \$144.03 per store.

Moreover, the Federal Trade Commission in its million-dollar, six-year chain store inquiry, found that 82% of the 153 reporting chain store companies donated to local welfare enterprises and that their contributions averaged \$77 per-store, per-year. In over 87% of reporting chain store companies, additional contributions were made, personally, by chain store managers averaging \$50 per store, per year.¹⁷

Enough for the general; let's here become specific. Let's consider this charge in the light of the record; the Texas and Ohio records, for example.

In the autumn of 1938, Houston chain stores demonstrated their desire to support worthy local welfare enterprises by completing their own Community Chest drive and reporting 100% chain store participation, a day before the regular city-wide Community Chest drive began. They presented subscriptions to the Houston Community Chest Fund totalling \$13,864.74 which represented a substantial increase over their quota.

In Galveston, Texas, well in advance of deadline, 11 chain stores contributed \$1,184.30 to the Community Chest that supports 16 Galveston social welfare agencies. In Port Arthur, Texas, the chain store Community Chest quota was \$2,541; they contributed almost \$3,000. And in Dallas, the Community Chest received \$8,012 from chain stores — a sum which was well over the chain store quota.

In Beaumont, Texas, chain stores appeared prominently on the Community Chest Honor Roll. In El Paso, of all other Community Chest divisions, chain stores, with 100% participation, were the first to meet their quota.

Note ¹⁷ *Reference Source:* U. S. Senate Document 93, 73rd Congress, 2nd Session, Pages 60-64.

ANSWERING CHAIN STORE CHARGES

Meanwhile, the results of the following survey — comparing contributions made to the Lima, Ohio, Community Fund by chain store and by individually-owned grocery stores — merit attention.

The Ohio Council of Retail Merchants, in conducting this Lima survey found that food chains contributed over 2 to 1 more to the Community Fund than contributing independent food stores and by 10 to 1 over the amount donated by all Lima independent food stores.

There are in Lima 170 retail food stores of all kinds, 11 of which are chain stores. Whereas, only 31 of the 159 independents contributed to the Community Fund, all of the eleven chain stores contributed.

The contributions of the 31 individually-owned stores totalled \$187.25 — an average of over \$6 per store. Eleven chain stores, meantime, contributed a total of \$140 — or an average of \$12.72 per store. The average contribution for all 159 independent Lima food stores was \$1.18 per store.

The average contribution per-independent store employee was 38c; the average per-chain store employee contribution totalled \$2.33.

These are but a few examples among many that demonstrate the desire of chain stores both to bear their civic responsibilities and fully to donate to worthy local welfare enterprises.

It is interesting to note, finally, that 12,396 employees of 78 representative, recently-surveyed chain store companies are officers, committee chairmen or other important leaders in local Chamber of Commerce, Service Club and other community welfare and service activities. Of these, 279 are mayors or other officers of municipalities. This 12,396 figure does not, naturally, include the multitude of other chain store employees who are merely members in good standing of such local organizations.

— F —

CHAIN STORES AVOID PAYING THEIR FAIR SHARE OF TAXES

Answer

They neither can, nor wish to avoid paying their fair, full tax share. In fact, it is estimated that chains pay the impressive sum of \$255,900,000 a year in Federal, state and local taxes.

A few of the taxes now paid by chain stores include, for instance, (1) state and municipal license, (2) occupation, excise and sales taxes, (3) real estate and improvement taxes, (4) personal property taxes, (5) corporation income taxes, (6) capital stock taxes, (7) excess profit taxes, (8) corporation franchise taxes, (9) unemployment and old age pension taxes, to say nothing, of course, about the substantial payments that they make for other types of Federal tax levies.

And, if they operate in any of the 19 states wherein discriminatory chain store tax statutes are operative, as of this writing, chain store companies must also add discriminatory, punitive state taxes to the foregoing, already-long list.

All of the aforementioned taxes are, naturally, additional to the taxes that are paid by landlords on properties rented to chain stores and which, in turn, are included by property owners in the rentals that they charge chain stores. And if a chain store company itself owns store, warehouse or any other type of property, and many of them do, then naturally it must pay direct property taxes thereon just as does any other property owner.

Furthermore, while the corporate form of organization is used by nearly all chain store companies, most competing stores are operated by individuals or partnerships. Chain stores, therefore, are subject to Federal and state taxes on corporations while the bulk of their independent competitors are exempt from such taxes.

It is easy to assume that chain stores, characterized by a high rate of stock turnover, and consequent lower inventories, have an especial advantage in property tax assessments. Light is shed on this subject by comparative surveys of taxes paid by chains and independents in municipalities in California, Colorado, Kansas, Oklahoma, Texas, Utah and Washington. They were made by such impartial, independent investigators as the Eberle Economic Service, Ltd. of California; Tax Research Bureau, Denver; Tax Audit Company, Dallas; M. W. Stevenson & Associates, Seattle, and others. These studies analyzed the real and personal property taxes paid by comparable chain and independent stores on a per-thousand square feet of floor space basis.

It is interesting to note that total real and property taxes paid by chain stores were generally found higher by these enlightening surveys than taxes paid by comparable independent stores. In fact, average chain store taxes were found to range from a low of 1.6% higher in California to a high of 52.2% higher in Utah.¹⁸

In connection with these studies, questionnaires were mailed to tax assessors, asking: (1) Are chain stores in your county filing assessments on a fair and equitable basis, or are they receiving any advantages in assessments? (2) Do chain stores enjoy advantages not available to other taxpayers?

Replies to these queries were received from 238 county assessors in seven states. Two hundred-thirty answered that chains were fair and honest in making tax returns — none thought that chains enjoy an advantage not available to other taxpayers.

Note ¹⁸ "Comparative Chain and Independent Store Taxation in Nine Western States" by Alberta E. Fish, Bulletin of the National Tax Association, June 1939.

ANSWERING CHAIN STORE CHARGES

Significantly, many assessors took the opportunity to say in their replies that chain store records were kept on a more businesslike basis and thus were more readily available and often more reliable.

Here, we transfer attention from the West Coast and personal property taxes to Indiana and gross income taxes paid by chain and individually-owned stores.

During the summer of 1938, the Indiana University School of Business Administration, under the direction of Dr. Howard M. Haas, conducted the first of a proposed series of tax surveys among the food and drug retail outlets in Indiana. Some significant findings follow:

The survey found that the total amount of the 1% gross income tax paid by all Indiana retailers was \$8,242,329. Of this amount, the payments by chain store companies were \$2,750,000 or 33% of the total paid by all retailers. (Chain store sales in Indiana, according to the United States Census of Business for 1935, were only 24.3% of all retail sales.)

The higher proportion of gross income tax payments by chain stores resulted from the smaller exemptions obtained by this class of taxpayer. A chain of 50 Indiana stores, for example, paid \$4,968.00 in store license fees, or an average of \$99.36 per store. The gross income tax exemption for the first \$3,000 of gross income amounted to \$30 for the chain or an average of 60c per store.

Meanwhile, an individually-owned store in competition with one of the stores of this chain of 50 Indiana stores, paid a store license fee of \$3.50 and received a gross income tax exemption of \$30. The individual store, therefore, had an advantage in store license fees of \$95.86 and an advantage in gross income tax exemption of \$29.40, or a total advantage of \$125.26. And this advantage was equal to the gross income tax on \$12,526 of retail sales.

Since the average sales volume of individually-owned stores in Indiana was shown by this study to have been about \$12,000 a year, the tax advantage that typical Indiana retailers had over competing chain stores on these two taxes alone amounted to 1% of their sales.

Compared with the cost per store of these taxes in a chain of 100 Indiana stores, the tax advantage in favor of competing individually-owned stores was \$150.88 per store.

Every conceivable type of tax that is levied on a retail corporation, or a store, is now being borne, fully, by chain store companies. It is noteworthy, in this connection, that in 1937, one typical company computed and paid 1240 different taxes.

— G —

CHAINS PAY LOW RENTALS

Answer

Chains pay about \$845,000 for every day in the year in rents, plus about \$350,000 daily in the rental value of local store properties, warehouses and headquarters that are owned by chain store companies in hundreds of towns and cities throughout the United States. The annual total is estimated to be \$436,600,000.

How do chain store rentals compare in amount to those paid by their competitors? The Federal Trade Commission provides the following answer from its study of the rent schedules of chain stores and of their competitors in 33 widely-scattered communities of from 1,700 to 5,100 population.¹⁹

Type of Business	Average Monthly Rent	
	Chain	Independent
Food Stores	\$97.56	\$61.45
Variety Stores	173.54	76.50
Dry Goods and Apparel	220.02	130.88

Moreover, chain store companies have made substantial local investments in real estate for stores, headquarters and warehouses. The total of these investments, for a representative group of 138 chain store companies, aggregated more than \$326,000,000 at the end of 1937.

Nor are these local investments concentrated in any one section of the country. They are spread coast-to-coast, as shown below:

	Total Value Stores Owned	Total Value Other Properties Owned	Total
New England States	\$ 20,154,833	\$ 5,751,018	\$25,905,851
Middle Atlantic States	72,393,642	10,572,012	82,965,654
East North Central States	64,602,738	14,986,848	79,589,586
West North Central States	25,755,615	2,836,633	28,592,248
South Atlantic States	32,517,362	4,928,372	37,445,734
East South Central States	12,080,629	611,994	12,692,623
West South Central States	17,950,654	1,454,806	19,405,460
Mountain States	6,681,057	1,378,288	8,059,345
Pacific States	26,511,928	5,392,186	31,904,114
Total	\$278,648,458	\$47,912,157	\$326,560,615

Note ¹⁹ Reference Source: U. S. Senate Document 93, 73rd Congress, 2nd Session, p. 49-f.

And the Chicago Real Estate Board, in a resolution passed at its annual meeting in the autumn of 1938 had the following to say in the matter of chain stores:

"... the economies effected by the system of national chain store distribution have immeasurably raised the standard of living and increased the purchasing power of the rank and file in America, and through permanency of occupancy and use have stabilized real estate values thereby assuring many thousands of local property owners of reliable, well-paying, prompt-remitting tenants and well-maintained properties, modern installations, etc. throughout occupancy, and

"... the great trade drawing power of such national chain stores has created valuable new trade areas and has substantially increased the property valuations of the retail areas wherein such stores are located, and

"... the elimination of national chain stores will destroy real estate values and income for a multitude of local property owners; bring economic chaos to all American trade, commerce and industry; increase unemployment thereby disrupting the great good performed by this system of retail distribution in the United States, and substantially result in the disorganization of currently-thriving retail areas throughout the United States."

The National Association of Real Estate Boards; the National Association of Building Owners and Managers; the Real Estate Boards of New York, Detroit, Atlanta, Des Moines, Seattle, Tacoma and many others resolved as strongly.

— H —

CHAIN STORES DO NOT SUPPORT LOCAL BANKS

Answer

Chain store critics profess that chain stores not only fail adequately to support local banks but hasten their failure. In proof of their charges, they say that the companies do not leave large bank balances with local bankers.

Yet, were the local bank balances of chain stores companies ever compared with those maintained by other kinds of merchants of comparable size and type, a topheavy preponderance would undoubtedly be found in favor of the chain stores. Let's turn to the record!

A survey of 138 chain store companies operating throughout the United States showed, for example, that reporting companies in 1937, had 19,085 local bank accounts to safeguard more than \$58,000,000 in local deposits. This represented an average of over \$3,000 balance in each one of these local bank accounts.

THE CHAIN STORE TELLS ITS STORY

The average bank balance in the local accounts of reporting chain food store companies amounted to \$1,808 and there was an average of one local bank account to about 2.40 stores. Hence, the average bank balance *per store* in these local accounts was \$753. The average annual profit obtained in these reporting chain food stores was \$717 or \$36 less than the amount kept constantly on deposit locally.

For reporting chain drug store companies, the average bank balance was \$6,415 and there was one local bank account to 1.69 stores or an average local balance per store of \$3,796. The average profits of chain drug store companies were \$4,798 per store, per year. Thus, the amount of money kept on deposit, locally, was equal to more than nine months of profit earned per store.

Additionally, reporting chain store companies, of all types, maintained 821 other bank accounts. The amount of money on hand in these 821 additional accounts totalled over \$96,000,000, thereby averaging over \$115,000 per account.

Nor were all of these other bank accounts, which, as shown, were supplementary to the substantial balances maintained in local bank accounts, concentrated in New York City or in any other one financial center. How could they have been with the headquarters of chain store companies located, not just in one city or in one restricted section of America, but scattered throughout the United States?

The following tabulation presents the geographic distribution of these additional bank accounts and the amount of money banked in each geographic location:

	No. Central Bank Accounts	Aggregate Bank Balance of These Accounts
New England States	26	\$ 3,841,697
Middle Atlantic States	274	55,503,847
East North Central States ..	150	19,850,940
West North Central States ..	83	5,424,692
South Atlantic States	56	1,851,473
East South Central States	35	875,827
West South Central States ...	55	1,091,146
Mountain States	40	1,193,135
Pacific States	102	6,421,678
Total	821	\$96,054,435

And the punchline of our evidence in connection with this charge is provided by the Federal Trade Commission itself, which, following its six-year investigation of chain stores reported:²⁰

Note ²⁰ *Reference Source*: U. S. Senate Document 93, 73rd Congress, 2nd Session, p. 60.

"A distinct majority of bankers clearly expressing themselves on the question believe that chain store deposit accounts are satisfactory. The opinions divide about equally between those that say chain accounts are more satisfactory than independent merchants' accounts and those that express a preference for the latter."

— I —

**CHAIN STORES DON'T GIVE CUSTOMERS AS GOOD
SERVICE AS THEIR COMPETITORS**

Answer

Chain stores are busy stores. Their customers are steady customers. If this charge were true, chain stores, naturally, wouldn't succeed for customers won't trade at a store that doesn't give them the service they want, and nobody can force them to purchase from establishments with which they are not satisfied.

— J —

**CHAIN STORES HAVE BEEN RESPONSIBLE FOR NO
RETAIL IMPROVEMENTS**

Answer

A few among the many retail selling methods which have had their origin and greatest development in chain stores are:

1. Open display of merchandise, so that consumers can see, select and buy their wants.
2. Cooperation with manufacturers and producers in the development of new and improved merchandise. (Making available to the nation's "masses", at prices within their means, goods, wares and merchandise that formerly were the luxuries of the nation's "few".)
3. Cost control methods for efficient operation of stores.
4. Year-round sale of fresh fruits and vegetables.
5. Cooperation with producers in profitable marketing of crop surpluses, thereby increasing the earning and spending power of the nation's producers and stimulating farm and national prosperity.
6. Store modernization. Chain store expenditures for store modernization reached record proportions in 1939, increasing 12.2 per cent above the big total spent for store construction in 1938 and surpassing by 1.3 per cent the previous record-breaking

figure of 1937. The 1939 total of \$126,159,914 spent by the chains for new stores and for remodeling, is the highest in the seven years in which Chain Store Age has made its annual construction survey.²¹ Who gained by these record construction expenditures? Who but local contractors, carpenters, electricians, sources of supply, etc.?

7. Creation of improved store fixtures and equipment. It is interesting to note that chain stores, according to Chain Store Age expended \$7,578,357 in 1939 for store air conditioning, alone. In six years, the F. W. Woolworth Company, for instance, has expended \$44,000,000 for alterations, construction, fixtures, air conditioning and store opening expenses. Of this amount, more than 3¼ million dollars were invested in air conditioning.
8. Creation of new trading centers; the prestige of established chain store names attracted trade and built thriving communities.
9. Training of store employees in courtesy, service and knowledge of their jobs.
10. Lower prices to consumers through efficient distribution and retailing methods. In a study by one chain, for example, it was found that a 9 x 12 felt base rug that sold in 1927 for \$8.25 was sold by that company in 1937 for \$4.70. Yet the cost of raw material in the rug increased 15c. How done? Processing costs were decreased \$2.30 and distribution costs were reduced \$1.40 per rug.

PART V

Chain Stores Give Poor Quality and Indulge in Questionable Practices

— A —

THE QUALITY OF GOODS SOLD BY CHAINS IS CHEAP AND INFERIOR

Answer

With public confidence at stake, chain stores cannot afford to guess at quality. Consequently, every article offered in their stores is carefully selected and is given every known scientific test to assure consumers of high quality.

Note ²¹ Chain Store Age (Administration Edition) November, 1939, p. 8.

The establishment several years ago of the Kroger Food Foundation, a laboratory and research bureau financed through an endowment fund of \$1,000,000 to study and assure the consumer of the highest possible quality of food products is but one illustration among many of the inflexible chain store policy to offer the American people only the highest quality foods.

In announcing the establishment of the Kroger Food Foundation, A. H. Morrill, president of the company, said:

"The Kroger Grocery & Baking Co. realizes that it has an obligation to the hundreds of thousands of consumers who depend upon it for sustenance. It, therefore, wants to set and maintain certain high standards for the products that it merchandises.

"The present food control agencies, such as those authorized and maintained under the provision of the Federal Pure Food Laws, are concerned only with keeping foods above a certain minimum standard. It is the purpose of this Foundation, through analyses and experiments, to raise them to the maximum."

The Kroger Food Foundation maintains extensive laboratories in Cincinnati where scientists analyze all types of food and set up standards which must be met by all products sold by the company. In addition to complete physical, chemical and bacteriological laboratories, the Foundation also maintains a model kitchen where actual cookery tests are made.

Several years ago, the Kroger Grocery and Baking Co. took another step forward in its efforts to offer American consumers the highest grade food products possible by establishing Fellowships in a number of universities for the express purpose of studying specific food problems. Through the endowment of these Fellowships, the Kroger Company assigned a specific subject to each university. One, for example, was an intensive study of experimental cookery; another dealt with child nutrition; while a third studied budgets for different size families, particularly with a view toward developing adequate nourishment with minimum budget.

The Kroger Company is by no means alone in making these scientific efforts to raise the quality of items sold in the chain store marketplace. Quality is an insistent point with the buyers of every other type of chain store. And buyers check purchases carefully to ascertain that their demands have faithfully been fulfilled.

Specifications determined by chain variety store buyers, for example, are extensive. Let's take sheets for example. Here, they outline the kind, the thread, the thread count, finish, amount of filling, size with hem, stitching in hem, amount of shrinkage, and other points. On shirts, they cover everything from the type of button, collar, shape and stiffening of the shirt to the cut of the tail. One company, for instance, has been known to reject as many as 5,000 shirts for falling short on original standards.

Many of the larger companies insist that goods be delivered to a central warehouse before they are shipped out to the individual stores. On

arrival, they are carefully examined to see if orders are "up to standard". Some of these companies even send their buyers to factories to examine their orders while in process of production.

Chains work to eliminate only those expenses and services that thrifty consumers want eliminated. Knowing that customers demand quality, their merchandising experts, in turn, not only insist on quality, but see that they get it. Consumers who patronize chain stores and benefit from their values have learned through experience that in chains they are offered quality as well as lower prices.

The American housewife knows values. She also knows quality. And she wants the best quality she can buy at the price she can afford to pay. Thus, merchants who succeed are those, like chain stores, who give America's great army of thrifty consumers better quality for lower prices. *And that's the secret of chain store success!*

— B —

**CHAIN STORES SHORT WEIGHT AND SHORT
CHANGE THEIR CUSTOMERS**

Answer

They could not stay in business, much less grow, if they did. No consumer who is deliberately short-weighted, short-changed or who is sold shoddy merchandise by any store — chain or independent — will continue to trade with that store. But let's dig into facts.

The instances of short-weighting and short-changing discovered by the Federal Trade Commission in its recent million dollar investigation were almost unbelievably insignificant in both chains and independents. As a matter of fact, the Commission found in studied stores about as many cases of undercharging as overcharging.²²

Moreover, a recent study by Institute of Distribution, Inc. of the latest official reports of state, county and city officials on retail short weights and measures in 279 different jurisdictions, disclosed that of 1,723,938 scales and measuring devices inspected, in one year, in both chain and individually-owned retail stores, only 3.3% were found unacceptable.

Of a total of 1,270,585 inspected packages in chain and independent stores, officials found, furthermore, that only 4.4% of the total were short weight.

Officials from every section of America repeatedly emphasized to the Institute of Distribution, in its recent survey, that both chain stores and individually-owned stores are exceedingly cooperative in the observance of

Note ²² U. S. Senate Document 153, 72nd Congress, 2nd Session, pp. 32-33.

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laws regarding short weights and measures. If either chain stores or individually-owned stores were engaged in deliberate short weight practices, certainly one or more of the 300 respondent enforcement officials would have said something about it. None did!

These results parallel the results of an independent survey made in Michigan by Edward Heyman. He questioned the city clerks of 30 municipalities. Of these, 28 reported no violations of short weights and measures ordinances.

In Detroit and Kalamazoo, a smaller proportion of violations was reported covering chain stores than individually-owned stores. In both types of stores, the number of violations was so small as to be insignificant; violations of short weights and measures ordinances were found to be rare indeed. The number of violations for an entire year in Detroit, for instance, was but 14; for Kalamazoo it was only 11.

Most chains use thorough supervision and tests in their stores intended to eliminate weighing and changemaking mistakes due to human frailty. The men who operate chains have learned from experience that store success depends upon consumer confidence. Accordingly, strict store policy is that nothing shall be done to jeopardize that confidence.

— C —

CHAINS CHARGE DIFFERENT PRICES IN DIFFERENT CITIES IN THE SAME STATE (AND EVEN IN THE SAME CITY)

Answer

In the Federal Trade Commission chain store inquiry, a comparison was made by the field agents of the Commission between the retail selling prices reported by the headquarters of 6 food chains in Detroit, Memphis and Washington, D. C., and the prices actually charged in the retail stores of these chains in these cities.²³ Here are the results:

Total number of price quotations obtained in stores 82,213
(represents 100.0%).

Total number of quotations found to be:

- | | |
|--|----------------|
| (a) the same as prices specified by chain headquarters | 73,653 — 89.6% |
| (b) above by 1c or less | 1,822 — 2.2% |
| (c) below by 1c or less | 2,526 — 3.1% |
| (d) above by more than 5c | 133 — 0.2% |
| (e) below by more than 5c | 140 — 0.2% |

*Note*²³ *Reference Source*: U. S. Senate Document 85, 73rd Congress, 2nd Session, pp. 59-f.

— D —

CHAINS BEAT DOWN THE PRICES OF FARM PRODUCTS THEREBY MENACING THE WELFARE OF AMERICAN FARMERS

Answer

Individually and collectively, American farmers say that among the best friends they have are First National Stores and American Stores and Kroger and the other companies that compose the food chain store industry of the nation. Representative farmers, for example, speak of Safeway, as follows:

George Ranson, Farmer, near Enid, Oklahoma: "I've watched Safeway work for a long time — they cooperate with farmers 100%. The way they handle our Gold Spot milk, cream and butter is typical. They are mighty particular about quality and pay the going price or better to get it. Then, at their own expense, they advertise to increase consumption. This can't help but give producers a bigger market, and more money return, in the long run."

John Burns, General Manager, 6666 Cattle Ranches, near Fort Worth, Texas: "I'm for any outfit that pays the going price for farm products and, at no cost to the producers, keeps them flowing into consumption. Chain stores like Safeway help to keep the beef industry on an even keel. They move meat in the most direct way — thereby save time and money for both producer and consumer."

James S. Sharp, Cotton Grower, President Texas Cotton Growers Association, Paris, Texas: "All of us farmers have one common problem — getting what we grow to the consumer at the lowest possible cost. To do that, we must have a low cost production and efficient distribution. It seems to me that Safeway, by taking farm products direct from producer to consumer, does away with the needless waste and expense of the old-fashioned distribution method."

Forceful and compelling was the pro-chain store action taken by farm groups throughout the United States when chain stores faced the menace of becoming crippled or destroyed through discriminatory legislation in 1938 and in 1939. National, state and local associations of farmers, growers and producers, applauding the benefits derived from chain stores, lambasted anti-chain store legislation.

Among the numerous farm organizations that formally resolved against discriminatory legislation were the National Cooperative Council; the National Creamery and Buttermakers' Association; the American Farm

Bureau Federation; the National Wool Growers' Association; the National Farmers Union Convention and many others of a similar type. Would such organizations have denounced discriminatory legislation if chain stores "beat down prices of farm products" as chain store critics charge?

Ask the associations of farmers and stockgrowers who through the chains have sold their surplus crops of lamb, beef, peaches, walnuts, turkeys, apples, eggs and milk! *Ask them if it is true or false that the chains have not only sold these surplus crops for the farmers, but have prevented the surpluses from ruining their prices!*

— E —

**DIRECT, QUANTITY SELLING TO CHAINS
HARMS MANUFACTURERS**

Answer

Two typical statements follow that explode the myth of this charge. The first — from a typical manufacturer:

"The success of our little (manufacturing) business here has been phenomenal and we believe it is the result of the business we have obtained through our good chain store customers. We have at the present time twice as many employees as we had in 1928. We are able to produce cheaply and to pay our help slightly above the average wage because of the steady volume of business we receive from the chains. An average of \$3,500 a week pours into this little town. We are sold on the economies of wide distribution and low prices which help everyone."

Here is another manufacturer's statement:

"From 1924 to 1928 the retail price of our principal product was 60c . . . During that period our sales were direct to small dealers . . . the average number sold per year was less than half a million. In 1929 the product got into one of the large chains, with the price reduced by volume to 25c retail — which later, with still greater volume, has come down to 10c.

"The result to the consumer is that this last year, some 16,000,000 people got the benefit of a lower cost on our product, better health, etc., as compared to only half a million when it was offered only through individual retail stores . . . likewise the number of people employed by the factories making the product has tripled or quadrupled."

A chain store generally buys in large quantities, usually for cash, mainly from sources of supply, directly. For instance, one chain store company, in one year, purchased 45,000 tons of candy or enough to fill a string of freight cars more than 20 miles long. A manufacturer recently



Mr. and Mrs. Webb, of Amarillo, Texas, and their daughter, Anita

I AM A CHAIN STORE MANAGER

I AM a chain store manager. Yes, I am employed by one of those big, bad wolves from Wall Street that Congressman Patman of my home state would have you believe are a threat to our independent America.

My company has put a lot of stores, all vacant, out of business since I have been with it. In fact, when my store opened here in Amarillo, the building it rented in had been vacant for more than two years. There was not an exclusive shoe store in the city. Now there are five—three chain stores and two independents. The independents are slowly going broke, of course, although one of them just recently built himself a new \$5,000 home. The other poor chap already owned a home and could only afford to spend \$2,000 on new furniture. Yes, my company is making it tough on the independent shoe dealers.

And of course the chain stores take no interest in local activities and have no community pride. Yet for some strange reason, Carl Hinton, the secretary of my Chamber of Commerce, goes out of his way to be nice to me at meetings, and he frequently tells other merchants in my presence that my company belongs to nearly 400 Chambers of Commerce throughout the United States.

Now as to charities in my community, the Community Chest, Red Cross, Salvation Army, the Boy and Girl Scouts, public health and nursing, etc. I have yet to fail to see my store represented by a generous subscription to these Amarillo charities, and what is more, this company attitude is known generally among the local citizens with whom I work to raise money each year for these institutions. And I even have a letter from

the head of the local chapter of the Red Cross commenting on my company's subscription of \$6,800 to flood sufferers in the Ohio river valley, a contribution authorized by my Wall Street boss on the ground that local business concerns in these flooded communities were themselves so hard hit that they could not afford to give as much to relief as they might wish. For this reason my boss felt that companies whose larger interests were outside the stricken area should bear the major responsibility in connection with this work of relief. Yeah, a cold-blooded outfit if ever there was one.

As for me, the chains have just about ruined me. I had been walking the streets for three years, out of employment, not knowing where my next meal was coming from, when my company gave me a job. I have been with them more than five years now . . . have been promoted from salesman to assistant to manager . . . my salary raised over \$20 per week. I haven't lost a day's pay in all this time . . . attend managers' conventions at company expense every Spring, get a vacation with pay every Summer and receive a bonus every Christmas. I have been able to pay off over \$600 in debts, buy \$1,500 worth of new furniture, adopt a baby, join a good fraternal order and now am planning to build a home of my own. So you can see that the chains have ground me right into the dirt. And I hope you print this letter in big type. It would serve the chain stores right if everybody who traded with them knew all about them.

Very truly yours
W. R. Webb

A CHAIN STORE
(THOM McAN) MANAGER

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took an order from a chain store company amounting to 4,000 miles of lead pencils and to 300 miles of pen points.

The substantial orders that chain stores place with sources of supply serve to reduce the manufacturers' operating costs, to keep them and their employees busy year-round, and to increase their profits. Chain store savings are, in turn, transferred to consumers in lower retail prices.

Chains go far to cooperate with reliable manufacturers. Some companies, for instance, pay for their orders long before delivery. Many develop, with the manufacturers' production departments, new goods for which tests and experience forecast popularity among consumers. Besides paying promptly and well, chain stores frequently place orders in off-seasons thereby enabling manufacturers to keep their factories open and their employees busy throughout the year.

These are but few among many good "dollars" and "cents" reasons why sources of supply are such steadfast chain store friends.

PART VI Chain Stores Crush Labor

— A —

CHAIN STORES PAY EMPLOYEES LESS THAN DO THEIR COMPETITORS

Answer

<i>Kind of Stores</i>	<i>Average Annual Wage Paid Per Full-Time Employee²⁴</i>
Drug Stores	
Ind.	\$ 972
Chain	\$1,024
Grocery Stores	
Ind.	\$ 813
Chain	\$1,191
Restaurants	
Ind.	\$ 649
Chain	\$ 758
Shoe Stores	
Ind.	\$1,172
Chain	\$1,255
Variety Stores	
Ind.	\$ 665
Chain	\$ 766
Average for 18 Kinds of Stores	
Ind.	\$ 947
Chain	\$1,079

Note ²⁴ U. S. Census of American Business, Retail Distribution, Chains and Independents, Table 3, 1933.

In a large measure, the foregoing figures explain why young men and women seeking jobs prefer to work for chain stores. Chain pay is better. Because chain stores are busy the year-round, in depression as well as in prosperity, a chain store job, moreover, is a steady job. And that's not all.

Besides paying fair wages to their employees, many companies also have systems whereby workers share in company profits. Managers of one large national company, for example, not only receive good salaries but likewise receive 30% of the profits of the stores which they manage. In most cases, employees of this company are also stockholders, thereby receiving dividends upon their company stock exactly as does any other stockholder in the organization. Thus, these employees have a triple source of income, namely, a fair salary, nearly one-third of the net profits of their respective stores and, by reason of stock ownership, a share of the earnings of the organization.

During America's great recent depression period, the chains made an heroic effort, despite heavy business losses, to keep employment at a maximum. Full-time employment from 1929 to 1933 in California, for example, decreased only 18.3% in the California chains (including filling stations) as compared with 33.8% in individually-owned enterprises.

The chains moreover, were among the first to respond to the President's appeal for reemployment. Accordingly, in California, the 18.3% were reemployed — and more besides. By 1935, the number of employees in California chain stores exceeded the 1929 total although the 1935 sales of these California chain stores reached only 79% of their 1929 aggregate.

— B —

**THE WORKERS OF OTHER TYPES OF STORES ARE
BETTER OFF THAN WORKERS IN CHAIN STORES**

Answer

It is estimated that there are 1,307,900 local men and women gainfully employed in chain stores. They have steadier work, better working conditions and 14% average higher wages, according to governmental data, than employees of competing establishments.

The standard of living of chain store employees is high. This fact is substantiated by a survey that was recently made of the 4,414 employees of 19 representative chain store companies by Institute of Distribution, Inc., and which found that 45% of these employees have home telephones; 54% own automobiles; 78% own radios; 58% have savings accounts and 80% carry personal life insurance besides group insurance provided by their companies.

That's probably why one-third of the employees of reporting companies in the recent survey of 138 representative chain store companies that

was certified by Peat, Marwick, Mitchell & Co., have been with the same company over 5 years; 35% from 2 to 5 years; the balance, composed substantially of young saleswomen to whom business life is temporary, have been with the same company less than 2 years.

The position of store manager of a chain store company is comparable, both in income and in responsibility, to that of manager or owner of an independently-owned store of similar size and type. Above the store managerships in chain store companies, moreover, come various grades of executive positions all of which, with rare exceptions, are filled from below.

Consequently, the chances for advancement in a successful chain store company are limited only by the ability of employees to take advantage of them. This is demonstrated by the fact that practically every major chain store company official, today, has "worked up from the ranks".

The presidents, for example, of 69 reporting companies in the described 138 company survey rose from the store ranks; 217 other top officers, such as vice-presidents, treasurers, etc. did likewise; 1,645 other senior executives, such as merchandise managers, advertising managers, etc. also started at the bottom.

— C —

**CHAIN STORES OFTEN MOVE MANAGERS
FROM CITY TO CITY**

Answer

The recent certified survey of 138 representative chain store companies, of all types, of all sizes, operating over 33,000 units and having sales of over 3½ billion dollars, found that over 4% of the store managers of reporting companies have been located in the same city 25 years or over; 23% from 10 to 25 years; 25% from 5 to 10 years. Thus, more than 50% of the managers surveyed have been in charge of stores, in the same city, 5 or more years.

Moreover, in a recent survey by the National Association of Food Chains of more than 52,000 employees in 7 representative chain grocery companies, it was found that more than 65% of the employees of the companies surveyed had resided for more than 10 years in the city in which they were employed at the time the survey was conducted; more than 1/5 of them had lived there for over 25 years. Only 1 in 12 had lived in the town of current residence for less than 2 years.

It is equally noteworthy that 3 out of 5 of these many chain grocery employees were married; the whole group of 52,000 employees was found to have a total of 126,589 people dependent upon them for support. Nearly

22% of them, furthermore, owned their own homes; over half had automobiles. Besides the group life insurance provided for them by their employers, four out of five carried additional life insurance.

Nearly 12,000 food chain store employees replied in the study that they held memberships in local civic and fraternal organizations; almost 700 different organizations were mentioned. Nearly 2,500 of the surveyed chain food store employees held office in the civic and fraternal organizations with which they were affiliated. And even that's not all!

Charitable contributions of these employees totalled \$811,089, or an average of \$15 per employee. The taxes that they collectively paid to the Federal, state and local governments amounted to \$2,093,314, or an average of almost \$40 per person.

Certainly these various investigations provide convincing evidence that chain store employees are responsible, long-time members of the communities in which they reside and that they participate in local community affairs, support local charities, pay ample taxes and are representative citizens of their home towns.

— D —

**CHAIN STORES PROVIDE INADEQUATE SAFEGUARDS
FOR THE WELFARE OF THEIR EMPLOYEES**

Answer

Chain stores are busy stores with ample help to give consumers prompt, courteous service. As against a nationwide average of less than 2 employees per individually-owned store, reporting companies in the recent 138 company survey were found, for example, to average 12 employees per store. In reporting variety stores, the average is even higher — 31 employees per store.

The social security laws of the government and of most of our state laws exempt from their application employees in establishments having fewer than 8 employees each. Thus, chain store employees get the fullest protection of unemployment compensation laws.

The same certified 138 company survey, also showed that sixty-nine reporting companies maintained profit-sharing plans; 89 maintained employee group insurance; 63 had programs underwriting sick benefits; 112 had other well-established employee benefits. Not one reporting company was found in which provisions did not exist for assisting employees during illness and disability.

— E —

**CHAIN STORES OFFER NO BUSINESS OPPORTUNITIES
TO AMERICAN YOUTH**

Answer

Chain stores leave the bulk of the retail field open to young men who feel an absolutely irresistible urge to own and operate their own retail establishments.

This is more than can be said of railroads, motor cars, steel and iron, shipping, banking, telephone and telegraph, radio, mining, engineering, newspapers and magazines, schools and universities — in short, the vast majority of our productive institutions. Yet, the most successful careers of American businessmen have been worked out in just these fields where it has not been necessary for ambitious young men to own the establishments in order to become successful.

Consider the folly of the man who would condemn these enterprises because there is little chance of his owning, by himself, a railroad, a bank, a shipping line or a telephone system.

Executive training schools in chain stores originated in the halcyon days prior to 1929 when chain stores were expanding just as rapidly as they could find choice locations and just as promptly as they could select proper personnel to man new stores. Carefully-selected young men were enrolled in training schools established by companies, were put through a period of training and were then given an opportunity to earn their spurs in newly-opened stores. The advent of business depression, however, postponed the development of such chain store training schools.

With the comparative up-swing in business which has recently manifested itself, however, more and more companies, today, are facing a new need for young executive reserves who can be trained to meet the new retail conditions of the coming decade. Accordingly, many chain store companies are now focussing their attention upon our schools and colleges for promising material with which to mould the chain store leaders of the future.

While the alert, able graduate has a choice opportunity to achieve relatively rapid progress in the chain store field, he must not for a moment believe that he will be eased smoothly and pleasantly into an executive post solely on the strength of his educational advantage. This would be faulty thinking. In this connection, the following observation made by an authority on the subject seems very much in point:

"Three qualities are of prime importance to the person going into chain store work: One, his willingness to learn; another, his willingness to work; and a third, is an absence of false pride. He must wrestle packing cases, sweep out the store, and spend long hours behind a counter. He must expect to round out his business

training by essentially setting himself to learn in the finishing school of hard work and disappointment furnished by the retail chain unit. He must be willing to do jobs which are dirty, monotonous, unpleasant and undignified — 'no kind of a job for a college or high school graduate' — but while he is doing these things, he may know he is playing for big stakes in the way of ultimate income and position."

After receiving his preliminary training in the chain store company with which he has become affiliated, the young executive trainee moves to the field to learn the fundamentals of the business. The store thereafter serves both as his workshop and his laboratory; by actual performance he must learn to manage a store, step-by-step, until he is proficient.

The next step in the young man's ascent, if he merits the opportunity, is an assistant store managership or even a managership. In time, there is a district supervisorship or some similarly advanced company position in the offing and ultimately . . . who knows? In climbing the chain store ladder, the young man obtains a thorough training and the power to carry responsibility for profit and progress.

Several years ago, 150 chain store companies were asked by Institute of Distribution, Inc. to provide an estimate of how long it takes, on the average, for their trainees to reach managerial status. The results of the poll are interesting and significant.

The survey revealed that in the variety store field, from three to four years are required, on the average, before a trainee is ready to manage a store. An average of four years of training is necessary to a young man before chain department store companies feel that he is prepared to carry the burden of managing a store effectively. This Institute poll showed that it normally takes from one to two years of careful schooling before an apprentice is qualified to become manager of a chain food unit. Restaurant chains apparently require at least three years of training and work in stores of a trainee before they will advance him to a managerial position. From three to four years experience in stores is needed by trainees in auto accessory chains before they are ready to assume the responsibilities of store managership.

Almost every chain store company has definite plans for the advancement of its employees. As previously stated, the chances for advancement in a successful chain are limited only by the ability of employees to take advantage of them. Above the store managerships come various grades of executive positions, all of which are filled from below.

Most of the officers and heads of present chains have worked up from the bottom. Consider, for example, the case of the Great Atlantic and Pacific Tea Co. Four of this company's six district presidents were originally clerks in small unit stores. In the F. W. Woolworth Company, for further example, every officer from president down — and every one of the

ANSWERING CHAIN STORE CHARGES

company's district managers, assistant district managers, buyers, superintendents and similar company officials — have worked up the Woolworth ranks to their present positions.

To maintain their efficient management, chains must have competent employees and executives. Their doors, accordingly, are always open to ability.

The chain store industry is a comparatively new field for trained college and high school men, but it offers as fertile a field of opportunity for the right type of graduates, today, as the department stores in the '90's offered to the men who have ultimately become America's department store leaders.

CHAPTER SIX

IN CONCLUSION

In a sparsely settled wilderness civilization, more than 300 years ago, the foundations of our nation were laid. Its implements were crude, but its vision was unclouded and its will to progress, indomitable.

Our pioneer forefathers saw clearly that the law of life, of service, of survival, was the law of change and of constant improvement to meet the new and increasing demands of an expanding and complex civilization. Thus, the pony express rider and the stage coach stepped aside for the railroad. Thus, too, did the railroad, in its turn, witness the evolution of the automobile and the aeroplane.

Modern chain stores, like these others, are simply progressive devices that have achieved their greatest growth and development in America after the Industrial Revolution because of man's determined effort to render ever better public service.

Regardless of the fact, however, that the growth and development of the modern chain store has played a major role in the advancement of our social and economic system and has substantially influenced the life of our entire nation, it has suffered from practically the same type of misinterpretation and misapprehension as the department store and the mail order house suffered in their early days of progress. It has been confronted with the same type of misunderstanding and prejudice that has confronted every other national economic development that has emerged suddenly from obscurity to resounding reality.

WAGES OF MISUNDERSTANDING AND PREJUDICE

Keeping in mind the vastness of the United States — a nation of over three million square miles of territory, stretching from ocean to ocean, from the Great Lakes to the Gulf of Mexico, from the tropical shores of Florida and Southern California to the frigid shores of Lake Superior — with all its racial, social and economic variety — its millions of farms — its thousands upon thousands of villages and small towns and its increasingly large urban centers — it is not difficult to understand why the chain store development has been one of controversy. And because their social and economic values were misrepresented by selfish yet politically-powerful interests, chain stores, as we have seen, have been singled out to bear punitive, discriminatory taxes.

THE CHAIN'S CONTRIBUTION TO PROGRESS

While a large and important consumer element is thoroughly conscious that it was the chain store influence that brought lower prices, more modern conveniences and more standardized quality into local retailing,

IN CONCLUSION

comparatively few consumers have seemingly realized, until recently, that the chain store, in essence, is merely an application of the principles of large-scale operation to the field of retailing. Those, moreover, who gave thought to this problem evidently became confused by the notion that chain stores perform "mass distribution" in the same way that large-scale fabrication in modern factories secures "mass production." The comparison of mass distribution with mass production, however, is scarcely more than a figure of speech.

While in the distinctly wholesaling functions performed by the chain store, certain efficiencies have been introduced representing limited applications of the principles of mass production and mass handling, the fact nevertheless remains that from the moment merchandise enters the retail unit of the chain store, there is no such thing as mass selling or mass handling.

Every operation, from the first to the last, at once becomes individualized. The final, crucial operation in retailing is the consummation of purchase and sale between the customer and the store clerk. This operation has never submitted to "standardization", to "mass control", or to any of the other popular Twentieth Century labels. It is a highly individualized operation and depends very largely for its success upon the skill and personality of the retail store employee.

The chain store, then, is essentially large-scale retailing. Its development came in answer to a demand from consumers and producers for a more effective, more economical system of retail distribution.

PUBLIC INTEREST DEMANDS FREE COMPETITION

Chain stores exist today, as always, without any special grant or franchise and enjoy no merchandising, marketing or operating privileges or advantages which are not likewise available to their competitors. On the contrary, they have continued to progress, in the face, as we have seen, of opposition, sometimes even of antagonism, solely because of the values, services and conveniences that their progressive merchandising policies and practices have brought 130 million American people.

And though America today enjoys the best distributive system in the world, that system still faces the problem of eliminating waste and of shortening the distance between production and consumption to the economic benefit of the nation.

Chain stores cannot alone perfect the faulty processes of our modern retail distribution, but together with their progressive competitors, they have made the greatest contribution to its progress. Until some new and better device is perfected, therefore, the public interest demands that efforts to harass them through discriminatory, punitive taxes continue to be repudiated thereby permitting them equal competitive opportunity to serve, to benefit, and to expand the purchasing power of America's people.

CHAPTER SEVEN

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VII

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- c) MONTHLY REPORTING SERIES. Monthly releases showing the average daily sales compared with the same month a year ago. Issued by and procurable from the Market Data Section of the Marketing Research Division. Include the following: Chain Drug Store Sales—percentage change—for the nation and by regions. Chain Grocery Store Sales, an index. Chain Sales, Men's Wear, percentage change. Variety Store Sales, an index. The last three named are for the nation.
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Gamble-Skogmo, Inc.	16, 86, 181	G. M. Najarian & Sons	17, 80
Ginter Co.	71	National Grocery Co.	17
The B. F. Goodrich Co.	15	National Shirt Shops of Delaware, Inc. 16, 86	
Goodyear Tire & Rubber Co.	15	National Tea Co.	16, 23, 71, 148, 179
Graham Department Stores Co.	17, 80, 149	Nedick's Stores, Inc.	17
F. & W. Grand 5-10-25c Stores	16	Neisner Bros., Inc.	16, 80, 92
F. & W. Grand-Silver Stores	16, 80	J. J. Newberry Co.	15, 78, 92, 196
Grand Union Co., Inc.,	16, 61-63	David Pender Grocery Co.	17, 80
W. T. Grant Co.	15, 75, 76, 92, 108, 196	J. C. Penney Co.	
Great American Tea Co.	57-61, 80	15, 68, 73, 75, 83, 94, 101, 108, 113, 196	
		Peoples Drug Stores, Inc.	16, 38-41, 80

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Piggly-Wiggly Corp.	77	Silver's	16
Pollacks, Inc.	92	Sontag Drug Stores	17, 86, 92-93
Puritan-Federal Clothing Stores Co.	16	Southern Grocery Stores, Inc.	17, 155, 180
Rayless Chain Stores, Inc.	17	Standard Drug Co.	17
Read Drug & Chemical Co.	17, 71	Standard Grocery Co.	17, 134, 137-38
Red Owl Stores, Inc.	16	Sterling Stores Co. Inc.	17, 86
Daniel Reeves, Inc.	17, 80	J. Stiner & Co.	57
Regal Shoe Co.	22, 92	Sumner Stores Corp.	17
Retail Dept. Stores of America, Inc.	16	C. Thomas Stores Sales System, Inc.	148, 179
Rogers Stores	172	John R. Thompson Co.	17, 71
Roos Brothers	61	Thrifty Drug Stores	92
Rose's 5-10-25c Stores, Inc.	17, 80	Frank Tod Shoe Stores	15, 69
Thomas Roulston Co.	17	Tolerton & Warfield Co.	149
Safeway Stores, Inc.	16, 23, 76, 78-80, 110, 146, 220	Tresslar's 5c-10c-\$1 Stores	80
Sanitary Grocery Co., Inc.	156	Trimmer's 5c-10c-25c Stores	80
Schettler Drug Co.	17	United Cigar Co.	75, 77, 113, 172
The Schiff Co.	16, 86	United Cigar-Whelan Stores Corp.	15
Schulte-United Variety Stores	16	Vaughn & Ragsdale Co.	147, 179
Schultz Bros. Co.	17, 80	Waldorf System	80
Ed Schuster & Co.	146	Walgreen Co.	15, 22, 77, 83
Scott-Burr Stores Corp.	16, 76, 92	John Ward Shoe Stores	15, 69
Sears, Roebuck & Co. 15, 47, 73, 76, 86-88, 110, 112, 120, 128		Montgomery Ward & Co.	15, 37, 73, 86, 128
See's Candy Shops	17	Martha Washington Candies Co.	80
Selby Shoe Co.	86	Weinberger Drug Co.	17, 86
Albert Sheetz Mission Co.	17	Western Auto Supply Co.	16, 77
Sprouse-Reitz Co.,	17, 80	Whipple Bros., Inc.	17, 71
Isaac Silver & Bros.	16	White Castle System	85
		F. W. Woolworth Co. 13, 15, 62-66, 83, 92, 113, 196, 216, 228	